

21 December 2010

Hon Hekia Parata
Associate Minister of Energy and Resources
Parliament

Dear Minister

Advice on Gas Distribution Arrangements

In this letter we set out Gas Industry Co's advice following our recent review of industry arrangements for the distribution of gas.

Background

Gas Industry Co first considered distribution sector issues in 2005. The main purpose was to establish the effect of the existing regulatory regime on industry (based on information disclosure under the (Information Disclosure) Regulations) and the pending control of distribution services by the Commerce Commission. We acknowledged our work would need to complement that of the Commerce Commission.

Gas Industry Co later developed an indicative work programme for the review of distribution contracts. The areas of interest were terms and conditions of access, establishing minimum contract terms, and requiring enhanced price and service level disclosure. However, this work was set aside pending discussions with the industry on whether the issues warranted further work given the Commerce Commission's price-quality regime initiatives. Some of the more pressing concerns were considered in other Gas Industry Co work programmes, including the consumer issues work stream.

Earlier this year Gas Industry Co re-opened work on the review of distribution contracts.

The Distribution Issues Paper

The *Gas Governance Issues in Distribution Issues Paper* (The Distribution Issues Paper), issued for consultation in September 2010, assessed whether issues associated with the distribution of natural gas warrant resolution through gas governance arrangements. The Distribution Issues Paper proposed a regulatory objective and considered legislative and contracted arrangements relevant to gas distribution. It discussed potential issues and assessed them against the regulatory objective.

Gas Industry Co concluded there are no issues that warrant us recommending intervention at this time. However, we considered the current arrangements could be improved by introducing contract benchmarks and encouraging line business owners to complete and update their various contractual arrangements.

Consultation

Eight submissions were received on the Distribution Issues Paper.

Most submitters supported the development of the high-level distribution contract benchmarks.

Submitters commented on the desirability of standardised and published interconnection agreements. Gas Industry Co agrees such arrangements would improve transparency and help to provide a better understanding of how the arrangements function. We will actively encourage the publication of agreements. We also agree it is important industry participants understand the effect regulation has on all parties along the supply chain.

Another issue prompting significant comment was disconnection charges. Submitters varied in their opinions on who should bear the fixed costs of supply to vacant properties. Gas Industry Co thinks the industry could improve its practices relating to disconnection and reconnection and we suggest these issues are considered further in relation to the development of the distribution contract benchmarks.

The majority of submitters considered Gas Industry Co need do no further work in the areas of safety and reliability, or the efficiency aspects of distribution services.

Analysis of submissions

After considering submissions, Gas Industry Co responded in an Analysis of Submissions Paper. That paper outlined our conclusions and next steps.

Conclusions and next steps

The submissions made it clear that existing distribution arrangements can be improved. However, we consider there is no strong case for regulation at this time. Gas Industry Co agrees with the majority of submitters that it would be sensible to develop voluntary, high-level distribution contract benchmarks. We will deal with some of the other issues raised by submitters as we develop the contract benchmarks.

Our next steps to progress the development of the contract benchmarks include an industry meeting in February 2011.

In addition to the benchmarks, we consider there is a role for Gas Industry Co to monitor and regularly report on the status of distributors updating their Network Services Agreements. We propose doing so on a yearly basis. We will also continue to encourage network owners to publish their standard contracts, if they are not already doing so.

Advice

Gas Industry Co's advice on current industry arrangements for the distribution of gas is that regulation is not required at this time. We will continue to work with industry participants to improve existing arrangements by completing the work described above.

We will continue to keep you informed of our progress and any findings that may change this advice.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J. Bolger', with a long horizontal flourish extending to the right.

Rt Hon J Bolger, ONZ

Chair

CC Caroline van Leuven
David Buckrell