



Analysis of Submissions on July 2013 GTIP update and PEA advice to GIC

Date issued: 25 October 2013



About Gas Industry Co.

Gas Industry Co is the gas industry body and co-regulator under the Gas Act. Its role is to:

- develop arrangements, including regulations where appropriate, which improve:
 - the operation of gas markets;
 - access to infrastructure; and
 - consumer outcomes;
- develop these arrangements with the principal objective to ensure that gas is delivered to existing and new customers in a safe, efficient, reliable, fair and environmentally sustainable manner; and
- oversee compliance with, and review such arrangements.

Gas Industry Co is required to have regard to the Government's policy objectives for the gas sector, and to report on the achievement of those objectives and on the state of the New Zealand gas industry.

Gas Industry Co's corporate strategy is to 'optimise the contribution of gas to New Zealand'.

Executive summary

The Gas Transmission Investment Programme (GTIP) has been designed by Gas Industry Co to:

- ensure that existing and future gas transmission assets are used efficiently;
- establish the need for gas transmission investment; and
- develop an effective pathway for efficient gas transmission investment to take place.

The GTIP is a set of projects administered by Gas Industry Co with the assistance and oversight of industry participants. Central to the GTIP is the Transmission Access and Capacity Pricing Project. A Panel of Expert Advisers (PEA), comprising 8 experienced industry and consumer representatives has advised Gas Industry Co on this Project. The PEA began its analysis of transmission access arrangements in October 2011, and has been aided by an independent chair, economic advisors, and feedback from stakeholder workshops.

The PEA's first advice paper to Gas Industry Co was provided in July 2012 and, with the benefit of submissions and continued analysis, its second advice paper was provided in July 2013. The second paper – *Advice from Panel of Expert Advisers: Report to Gas Industry Company* (PEA Paper) – was published at the same time as a Gas Industry Co paper describing progress of the whole GTIP suite of projects: *GTIP Status Update* (GTIP Status Update). Gas Industry Co invited submissions on both the PEA Paper and GTIP Status Update.

In this paper we provide an analysis of the submissions received on both of those reports, and propose next steps for the Transmission Pricing and Capacity Pricing Project. In summary:

Section 2: Status of GTIP

Generally submitters agree with Gas Industry Co's assessment that good progress has been achieved, and that a number of projects are now complete.

Section 3: Problems and Solutions

There is a range of submitter views on the PEA's Problem Definition, but no outright rejection. In relation to the capacity aspects of the Problem Definition, some submitters think there is little prospect of another constraint and therefore little need for reform. Gas Industry Co recognises that constraints are infrequent, but agrees with the PEA's analysis that reform is still necessary, and that it is wise to progress that reform now, when there is no immediate threat.

In relation to grandfathered rights to transmission, several shippers still support the status quo, or slow phasing out. However, Gas Industry Co agrees with the PEA that the intended purpose of

grandfathering can be more efficiently achieved by offering fixed term rather than perpetual entitlements, and therefore supports introducing that alternative approach over time.

The 'possible initial components of a development path' set out by the PEA received little comment.

Section 4: Evolutionary Convergence

Not all submitters are enthusiastic about Evolutionary Convergence, but the TSOs and a number of other submitters generally are supportive. Gas Industry Co also believes that it is the right process for improving our access arrangements, and offers a preliminary view of the aspects that require investigation.

Section 5: Future direction of Transmission Access and Pricing Project

Submitters hold differing views on the future direction, so the prospects of a co-ordinated industry response seem less certain. Accordingly Gas Industry Co should press on with its policy development process.

Section 6: Conclusions and Next Steps

The PEA process has been exhaustive and detailed, and provides a solid foundation for improvement. Gas Industry Co believes it is prudent to now press on to design and implement those improvements. We encourage code participants to progress this work, and we will support such initiatives.

However, the issues are of sufficient gravity and submissions sufficiently diverse that Gas Industry Co must also respect its own policy development role and develop its own backstop counterfactual design. This will include obtaining feedback from stakeholders as our thinking develops and, as envisaged by the PEA, recommending regulation in accordance with our Gas Act responsibilities if necessary.

Accordingly, Gas Industry Co will:

- a) invite participants to provide a change plan, as proposed by the PEA;
- b) prepare an Improvement Options paper which will conclude and extend the foundation work of the PEA;
- c) hold a workshop and inviting submissions on the Improvement Options paper;
- d) develop a cost-benefit analysis of the preferred option; and
- e) if necessary, prepare a Statement of Proposal that may include regulated terms and conditions of access.

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1

Introduction

1.1 Papers consulted on

The Gas Transmission Investment Programme (GTIP) has been designed by Gas Industry Co to:

- ensure that existing and future gas transmission assets are used efficiently;
- establish the need for gas transmission investment; and
- develop an effective pathway for efficient gas transmission investment to take place.

The GTIP is a set of projects administered by Gas Industry Co with the assistance and oversight of industry participants. Gas Industry Co's July 2013 GTIP Status Update describes how these projects have progressed.

GTIP's central project – Transmission Access and Capacity Pricing – aims to ensure that transmission pipeline access arrangements are dynamically efficient. A Panel of Expert Advisers (PEA) has been working on this project since October 2011. It met monthly under an independent chair and, with the assistance of economic advisors and occasional stakeholder workshops, provided preliminary advice to Gas Industry Co in July 2012. Gas Industry Co called for submissions on that preliminary report, and those submissions were the basis of continuing analysis by the PEA. This led to further advice being provided to Gas Industry Co in July 2013. Gas Industry Co invited submissions on both Gas Industry Co's GTIP update paper and the PEA's further advice paper (PEA Paper).

Gas Industry Co published its own GTIP Status Update paper and the PEA Paper in July 2013, and invited submissions on both papers.

1.2 Submissions received

Submissions were received from:

- Contact Energy Limited (Contact);
- Genesis Power Limited (Genesis);
- Greymouth Gas New Zealand Limited (Greymouth Gas);

- Maui Development Limited (MDL);
- Major Gas Users Group (MGUG);
- Mighty River Power Limited (MRP); and
- Vector Limited (Vector).

All submissions, and other GTIP publications, are available from Gas Industry Co's website at www.gasindustry.co.nz.

1.3 Structure of submissions analysis

As well as summarising the views of each submitter (Appendix C), this analysis of submissions identifies some key areas of debate, reminds readers what the papers say, what submitters say, and offers Gas Industry Co's current perspective. These areas are:

Section 2: Status of GTIP

Section 3: Problems and Solutions

Section 4: Evolutionary Convergence

Section 5: Future direction of Transmission Access and Pricing Project

Section 6: Conclusions and Next Steps

In addition:

Appendix A contains the foreword of Gas Industry Co's July 2013 GTIP Status Update (GTIP Status Update);

Appendix B contains the Executive Summary of PEA's July 2013 advice to GIC paper (PEA Paper); and

Appendix C provides a summary of stakeholder submissions on both papers.

2 Status of GTIP

2.1 What the papers say

Good progress on most projects

The GTIP Status Update reviews the origin and development of the GTIP and the status of each of its projects. For convenience, the foreword of the paper is provided here in Appendix A. Figure 1, below, shows how progress of the individual GTIP projects was illustrated in the GTIP Status Update.

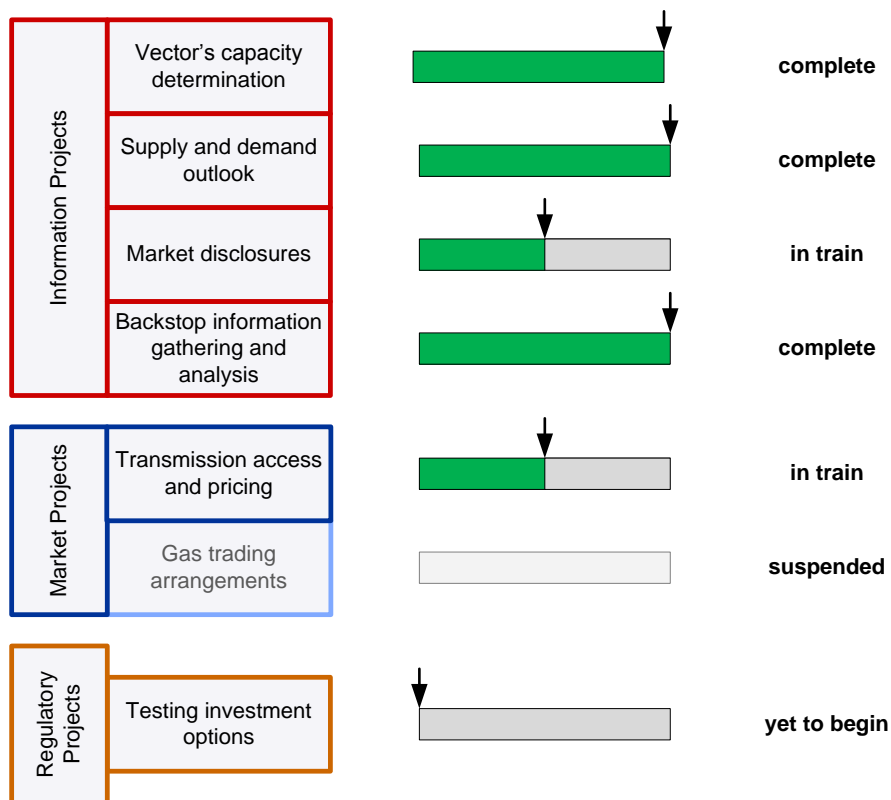


Figure 1 - Progress on GTIP Projects

2.2 What submitters say

Generally submitters agree with Gas Industry Co's assessment of progress

All submitters who answered the relevant question agree that the following projects are complete (although some submitters are not satisfied with the outcomes):

- Vector's Capacity Determination Project
- Supply and Demand Outlook Project
- Backstop Information Gathering Project

These submitters also agree with the suspension of the Gas Trading Arrangements Project.

Most submitters accept Gas Industry Co's view that the Transmission Market Disclosures Project should be the last GTIP project, sweeping up any information required to allow for effective market participation. But MGUG would like to see continued progress on transparency in the meantime. It agrees with the PEA that transparency is a key characteristic of a sound access and pricing regime.

There are differing views on the Testing Investment Options Project:

- MDL believes that developing a regulatory investment test for new and replacement investments should be a high priority. MGUG is also concerned that, absent a regulatory investment test, investment may not proceed even if justified.
- In contrast, Vector does not believe that the Testing Investment Options Project should be a priority at the moment.

There are a range of views on how Transmission Access and Pricing Project should proceed. As this is the central GTIP project, and the focus of the PEA Paper, we defer the analysis of these views on Testing Investment Options till Section 5, after the other aspects of the PEA Paper have been discussed.

3

Problems and Solutions

3.1 What the papers say

The PEA reviewed and reformed its original Problem Definition...

The PEA Paper set out the result of the PEA's extensive review of transmission access arrangements in the following problem definition:

Access arrangements do not provide for:

- Efficient allocation of scarce capacity, both physical and commercial (ie as defined by contracts/codes);
- Price signals to facilitate efficient investment; or
- Transparency on physical state of the pipelines and contractual arrangements for use of the pipelines.

Also

- Grandfathering of capacity may reduce competition to supply downstream users;
- Unnecessary costs may arise from different Maui and Vector access arrangements;
- End users do not secure long term capacity rights on the Maui pipeline; and
- Vertical integration demands special care that arrangements cannot favour affiliate businesses.

In relation to grandfathering of capacity rights, the PEA notes that:

Current arrangements give incumbent shippers a preferential renewal right to firm capacity based on their existing reserved capacity rights (Vector) or to physical capacity if curtailment arises (MPOC category B nomination provisions). These provisions could confer in-perpetuity preferences in favour of incumbent shippers, and therefore create a long term barrier to new entrants and downstream competition. For this reason they should be phased out. The absence of any pressing transmission capacity constraints in the near term (and associated near term value with these provisions) should facilitate the phase out, and allow for a swift transition.

(PEA Paper, Section 6.1.6 Transition away from grandfathering and supplementary agreements)

... the PEA also proposed a development path to address the problems.

The PEA's problem definition does not pinpoint which aspects of the current access arrangements require attention. However, in one of the 'perforated' boxes (that represent ideas that the PEA had discussed but not reached a firm view on) the PEA set out a possible path for development:

Possible initial components of a development path

The harmonised firm services would be developed from AQ on the Maui system, and the reserved capacity service on the Vector system.

The harmonised non-firm services would be developed from the 'flow on nominations' service on the Maui system and non-firm service on the Vector system.

Firm service

- *Term: firm contracts would be offered for various durations – starting with (say) 1 year and 5 year contracts*
- *Quantity: firm contracts would be offered for proportion of total transmission capacity to each location. The proportion and release profile would be developed by a user group working with the SO or pipeline owner*

Non-firm service

- *Availability: There should be no restrictions on the amount of non-firm capacity nominated by parties – noting that the quantity authorised for shipment may be less than nominated if there is insufficient capacity*

Nominations

- *Firm contracts would give shippers a right, but not the obligation, to nominate daily requirements up to the specified firm contract entitlement*
- *Non-firm service would be based on a daily nomination process – and shippers not holding firm entitlements would have their nominations scaled down if an 'on the day' capacity scarcity situation were to arise*
- *This implies that nominations will be required at least for those locations across the two pipeline systems where congestion could arise during the term of the offered capacity contracts*

Capacity measurement and disclosure

- *This could be based on existing arrangements – subject to any necessary changes to allow for harmonisation across the two pipeline systems*
- *Trading within a zone would not require SO consent*
- *Capacity could be defined on a zonal basis – for example on the Maui pipeline for the zones north and south of the Mokau compressor station. On the Vector system zones could be defined based on areas where congestion is likely to arise*

Security standard

- *This could be based on existing arrangements – subject to any necessary changes to allow for harmonisation across the two pipeline systems*

Transition issues

- *Free renewal options in Codes (e.g. Vector's current 'grandfathering' arrangement, and MPOC historical use) would be phased out.*
- *Supplementary agreements on the Vector system would be phased out or bought out*

(PEA Paper, Section 6.1.6 box)

3.2 What submitters say

There are a range of views on the PEA's Problem Definition, but no outright rejection

MGUG and Vector both agree with the problem definition.

Several submitters question the assumptions on which the problem definition is based. Contact, Genesis and MDL believe that physical capacity is no longer scarce, and that forecasts suggest that it is unlikely to be scarce in the foreseeable future.

In addition, Contact believes the problem definition is out of date and mostly based on opinion rather than evidence of market failure. Genesis suggests that Gas Industry Co should give priority to developing the interruptible market, improving information transparency, and encouraging common governance.

MDL considers that the problem definition does not adequately distinguish between the Maui and Vector regimes and, since the Maui pipeline will have sufficient capacity under all scenarios in the Supply and Demand Outlook, most aspects of the problem definition do not concern MDL.

Greymouth believes the main problem remains the lack of competition caused by grandfathering.

MRP suggests some aspects of the problem have not been adequately justified.

In relation to the capacity aspects of the Problem Definition, some submitters think there is little need for reform...

Contact suggests capacity constraints will not occur again since gas-fired generation demand has decreased. Similarly, MDL believes the Maui pipeline has sufficient capacity and that it is already allocated efficiently. Furthermore, users can already apply for AQ, but do not to do so because they are satisfied with current arrangements.

MDL also considers that the problem on the Vector system is contractual congestion rather than physical congestion.

... and in relation to grandfathering, several shippers still support the status quo, or slow phasing out

Greymouth continues to argue that the lack of competition caused by grandfathering, as described in Gas Industry Co's November 2010, *Retail Competition and Transmission Capacity: Statement of Proposal*, remains the main problem. However, other shippers with more established holdings of Vector pipeline transmission capacity have different opinions.

Genesis and MRP find that in the absence of a capacity constraint, the efficiency gain from phasing out the grandfathering arrangements is questionable. They also believe the security of supply benefit

of grandfathering has been ignored. In any case, Genesis considers that the mass market is too small for more competition to bring benefits.

... and the PEA's 'possible initial components of a development path' received little comment

Genesis believes it is too early to consider the PEA's 'perforated' box proposals. Contact is not convinced that further developing AQ is warranted, and considers that a cost benefit analysis is required.

Like Vector, MDL generally agrees that the PEA's suggested path would be helpful. However, MDL notes that AQ provisions in the MPOC are zone based and MDL does not wish to converge it to point-to-point capacity. Also, it does not consider that curtailment on the basis of 'historic use' is grandfathering, since it changes over time. MGUG also generally supports the PEA's suggestions.

Other submitters did not make specific comments on the suggested development path.

3.3 Gas Industry Co comment

In relation to capacity, we accept that constraints are infrequent...

Gas Industry Co acknowledges that currently it is only on the North Pipeline where nominations to flow gas are occasionally scaled back (ie in relation to the Refining NZ interruptible contract). So only this part of the system can be considered to be physically constrained at present. We also acknowledge that current industry demand projections raise no fears of further physical congestion in the foreseeable future.

... the PEA also recognises this...

The PEA's understanding of the capacity situation on Vector's pipelines is set out in Appendix A of the March 2013 paper *Analysis of Submissions on preliminary advice from PEA to GIC*. Its views are based on Vector's (then) recently released *Capacity Determination for the Vector Gas Transmission System As at 21 February 2013*.

Summarising the PEA's conclusions in regard to Rotowaro-north Pipeline capacity:

- at times, gas flows on Vector's Rotowaro-north Pipeline reach the limit of available physical capacity;
- however,
 - some existing pipeline users are already on interruptible agreements; and
 - Vector has recently renegotiated the Otahuhu SA resulting in a significant proportion of firm capacity becoming interruptible capacity.
- hence, although demand for capacity on the Rotowaro-north Pipeline is still high, and the pipeline is likely to become congested at times, there is now more interruptible capacity that Vector can call on to manage that congestion;

- in fact, the increase in the amount of interruptible capacity has created significant 'headroom' to allow more non-interruptible (firm) demand to develop. For example, if both power stations were running at the level of their firm capacity, and non-power station demand was at about the level of the August 2011 peak, there is scope to deliver between 19% or more firm gas to Greater Auckland.
- while the increase in the amount of interruptible capacity has increased Vector's ability to manage congestion for the present, the PEA wishes future congestion to be managed as efficiently as possible. This means that, where there is more demand for firm capacity than the system can supply, the available firm capacity will go to its highest value use.
- the S/D Review indicates that congestion can be managed in an economically efficient way at a lower cost than the marginal cost of expansion, so there is no imperative to build another pipeline to Auckland in the immediate future.

... yet the PEA still considers that action is necessary

The PEA's understanding of the capacity situation was reflected in its subsequent advice to Gas Industry Co where, in Section 2.2, *State of the market for transmission capacity*, the PEA noted that:

At present there are no delivery locations or zones on either the Maui or Vector systems where gas demand (as measured by actual flows or committed capacity purchases) clearly exceeds available capacity. However, demand in some areas is nearing capacity. There is also a possibility that some gas users may be limiting their demand because of concerns about potential congestion.

... daily gas demand (a key driver for pipeline capacity requirements) is volatile and has been becoming peakier over time.

Accordingly, transmission capacity limits may be approached at a faster rate than would be suggested by the growth rate for annual gas use. In summary, there is significant uncertainty about when and where congestion will next arise. While it may not occur for some years, it could also emerge relatively swiftly, depending on the rate of demand growth and the actions of some large gas users such as power stations.

Given that the time scale for making changes is long and some risks could emerge on shorter time frames, this suggests that there are no grounds for delay.

(PEA Paper, Section 2.2, *State of the market for transmission capacity*)

... we agree with the PEA, and are not persuaded by the 'no constraint, therefore no action needed' views expressed in some submissions

Gas Industry Co endorses the PEA's view that Gas Industry Co must be able to provide assurance to the industry and to government that any future shortage of capacity will be able to be handled in an efficient way (one of the PEA's proposed 'indicators of success').

In the course of its earlier deliberations (reported in the March 2013 Analysis of Submissions on preliminary advice from PEA), the PEA considered possible scenarios including either more or less gas-fired power generation in either Auckland or Taranaki, increasing demand from sunrise markets, declining demand from sunset markets, game changing technologies (fuel cells, electric cars, etc.), and economic wide factors (changing price relativities among competing fuels, terms of trade, investment, regional development etc.). The PEA concluded that there is a great deal of uncertainty about the future use of the transmission pipelines. Gas Industry Co agrees, and considers that it is unwise to be complacent.

We also strongly agree with the PEA's observation that '[g]iven that the time scale for making changes is long and some risks could emerge on shorter time frames, this suggests that there are no grounds for delay.' On issues where commercial positions dictate opposing views, history has shown that the gas industry can take a long time to design and implement solutions. For example, transmission pipeline overpressure incidents in the summer of 2005 spawned a raft of industry forums, workshops, issues paper, options papers, statements of proposal, a code development process and, most recently, proposed code changes. Now, almost 8 years after the original incidents, the balancing reforms are still incomplete. This indicates that significant reform can take many years, whereas pipeline congestion can emerge with little warning, as the 2009 Vector pipeline constraint illustrated.

We therefore agree with the PEA and those submitters who believe that the absence of a prospective constraint is no cause for delay.

In relation to grandfathering, we accept that such rights serve a purpose...

We do not agree with submitters who say that the security of supply benefit of grandfathering is ignored. While this is not an aspect that the PEA Paper discusses, we trust that all industry participants are aware of the benefits of grandfathering since the costs and benefits of the current grandfathering arrangements were thoroughly reviewed during the process leading to the release of Gas Industry Co's 12 November 2010, *Retail Competition and Transmission Capacity: Statement of Proposal*, and the April 2011 *Submissions Analysis and Next Steps* paper.

For example, the Statement of Proposal notes that:

Once a retailer has purchased capacity the VTC allows it to renew the same level of capacity from one year to the next. These 'grandfathering' rights were intended to provide retailers the ability to enter into multi-year contracts with their end users. They were not intended to give the incumbent retailer a competitive advantage when contracts come up for renewal, although this is their effect now that pipeline capacity is constrained.

(Retail Competition and Transmission Capacity: Statement of Proposal, 12 November 2010, p8)

... however, we agree with the PEA that the intended purpose of grandfathering can be more efficiently achieved by offering fixed term rather than perpetual entitlements.

The PEA Paper proposes certain 'Guiding Principles', one of which is that TSOs should offer a mix of transmission services, firm and non-firm, for a range of contract durations, and allocated based on willingness to pay. The PEA noted that:

Shippers are likely to be interested in a range of different contract terms (for example, one year and five years) depending on factors such as certainty about their future needs, and the consequences should they be unable to obtain adequate service on any given day. To reflect these varying needs, it would be desirable for contracts for services to be offered for a range of differing terms.

(PEA Paper, Section 6.1.4, Term structure and release profile of contracts for services)

We therefore consider that the PEA has considered the benefits of grandfathering, but that it concluded that the same benefits can be achieved more efficiently through a portfolio of term contracts. This is also Gas Industry Co's position, and we support the replacement of grandfathering provisions by a choice of term contracts over time.

4

Evolutionary Convergence

4.1 What the papers say

Section 5 of the PEA Paper set out the broad approaches to reform

Building on the discussion at the April 2013 workshop, the PEA Paper set out four broad approaches to reform: Capacity Follows the End User, Capacity Auctioning, Evolutionary Convergence and Full Integration.

The PEA concludes that Evolutionary Convergence provides the best approach to resolving the problems it had identified at a reasonable cost. Broadly, the approach involves progressive changes to the pipeline codes, introducing capacity allocation based on willingness to pay when scarcity occurs, and publishing transparent price signals for capacity. The PEA Paper notes that:

Although the existing code provisions differ in detail between the pipelines, they appear to provide a ready foundation for convergent development of access arrangements. In particular, it appears feasible to use the existing foundation to:

- Extend and harmonise a menu of transmission services to be offered across both pipelines.
- ‘Bolt on’ arrangements for capacity pricing when scarcity occurs.
- Further develop the information transparency provisions.

(PEA Paper, Section 5.3.1)

In light of the factors set out above, the PEA considers that the Evolutionary Convergence approach is strongly preferred over the Full Integration option, and that it should be feasible in practice.

4.2 What submitters say

Some submitters are not enthusiastic about Evolutionary Convergence...

Contact does not have enough information to judge if it supports Evolutionary Convergence, and believes that a cost-benefit analysis is required. MRP only supports the convergence of governance arrangements.

... but the TSOs, Genesis and Greymouth are generally supportive...

MDL broadly supports Evolutionary Convergence (provided evolution is in accord with good international practice). But MDL mostly disagrees with the common governance proposal. It considers technical provisions can be aligned but there is no need for common code governance.

Vector and Genesis both support Evolutionary Convergence. Vector agrees that the establishment of common code development processes for capacity access and pricing issues should be a priority, but does not believe that this means that a full merger of the MPOC and VTC is required.

Greymouth also believes Evolutionary Convergence is the right process, and considers that implementing the Capacity Follows End User rules previously proposed by Gas Industry Co should be one of the first steps.

... and MGUG notes that Evolutionary Convergence is a process rather than a solution

MGUG does not consider the options presented in the PEA Paper to be alternatives. Rather, Evolutionary Convergence describes a 'pathway approach', and not a solution to specific issues.

4.3 Gas Industry Co comment

Evolutionary Convergence is the right process for our market

We agree that Evolutionary Convergence describes a process involving progressive improvement as and when it is needed and justified.

We also agree with submitters who consider the suggested development path to be generally in the right direction. We can reach a very similar position if we consider the individual elements of the PEA's problem definition and ask which elements of the current arrangements would require attention to address the problem. A first cut at that analysis is provided in Table 1. It shows that the areas requiring particular attention are the replacement of grandfathering with defined term entitlements, the further development of Vector's interruptible arrangements and MDL's AQ arrangements, and improved transparency.

Table 1 - Deconstruction of PEA's problem definition

Element of PEA's problem definition	
	GIC's preliminary view of aspects of current transmission arrangements requiring investigation
1. Efficient allocation of scarce physical capacity	<ul style="list-style-type: none"> • Further development of interruptible arrangements on Vector pipelines (possibly allowing for convergence towards MDL's standard access arrangement, which is essentially an interruptible arrangement) • Consideration of whether a market based mechanism for reallocating capacity at times of physical constraint on Maui and Vector pipelines is justified

Element of PEA's problem definition	
	GIC's preliminary view of aspects of current transmission arrangements requiring investigation
2. Efficient allocation of scarce commercial capacity	
	<ul style="list-style-type: none"> • Possible re-packaging of Vector's reserved capacity into entitlements of varying terms (without grandfathering provisions) • Further development of MDL's AQ arrangements into entitlements of varying terms (possibly allowing for convergence with re-packaged Vector arrangements) • Developing auctioning arrangements for Vector's reserved capacity and MDL's AQ (possibly using the same auction design)
3. Price signals to facilitate efficient investment	
	Indicators of demand and price should fall out of items 1 and 2
4. Transparency on physical state of the pipelines and contractual arrangements for use of the pipelines	
	<ul style="list-style-type: none"> • Full disclosure of Receipt Point and Delivery Point reservations, nominations, and deliveries (at least in aggregate, and possibly by individual system user) • Full disclosure of transport contracts (possibly excluding price)
5. Grandfathering of capacity may reduce competition to supply downstream users	
	Grandfathering should be addressed in items 1 and 2
6. Unnecessary costs may arise from different Maui and Vector access arrangements	
	<ul style="list-style-type: none"> • The possible saving from converging various aspects of transmission should be assessed
7. End users do not secure long term capacity rights on the Maui pipeline	
	Capacity rights should be addressed in item 2
8. Vertical integration demands special care that arrangements cannot favour affiliate businesses	
	Item 4 should address this concern

5

Future Direction of Transmission Access and Pricing Project

5.1 What the papers say

The GTIP Status Update was optimistic that stakeholders would respond constructively to the PEA's proposals and move them forward...

The Transmission Access and Capacity Pricing Project is central to the GTIP, and has been the focus of the PEA's attention for nearly two years, culminating in the July 2013 PEA Paper. Given the high level of stakeholder participation, the GTIP Status Update expressed optimism that the industry would meet the challenge of improving transmission access and pricing arrangements along the lines proposed by the PEA, and noted that Gas Industry Co would support such efforts. However, we also noted that Gas Industry Co has regulatory powers that could be used if industry progress stalls. Figure 5 of the GTIP Status Update illustrated the anticipated process as follows:

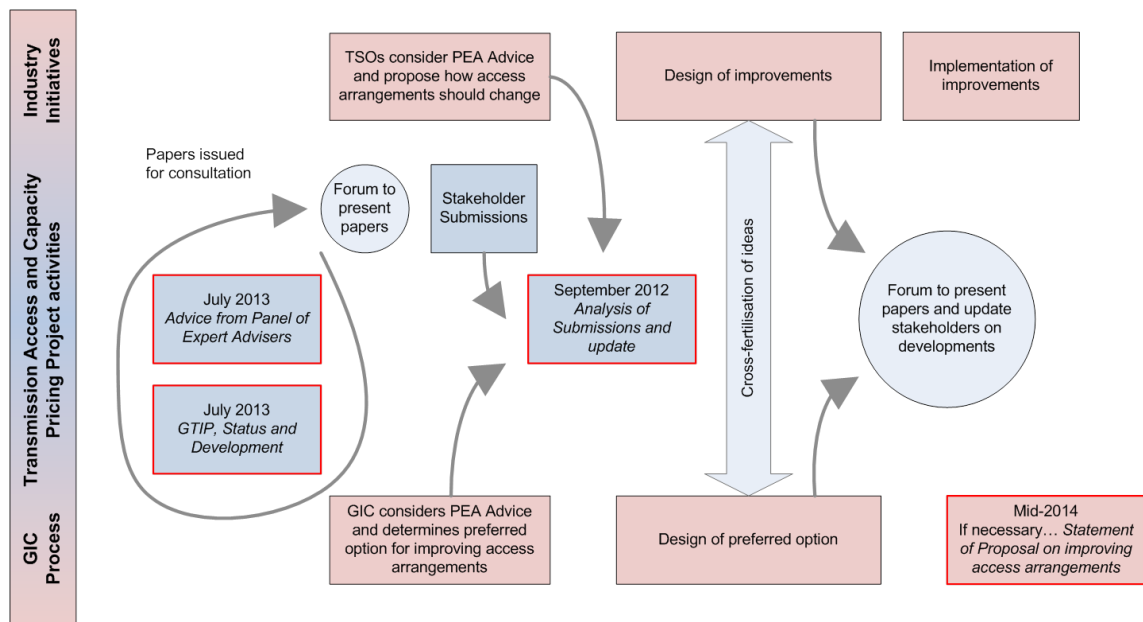


Figure 2 - Next steps in the Transmission Access and Capacity Pricing Project, as anticipated in GTIP Status Update paper

5.2 What submitters say

Submitters hold differing views on the future direction

Contact believes there is no longer a constraint, or prospect of one, so Gas Industry Co should refocus and concentrate on measures that could increase the size of the gas market by improving the competitiveness of gas. In any case, nothing should be done on transmission access without cost-benefit justification.

Similarly MDL believes that there is not a capacity problem on the Maui pipeline, and that the problem on the Vector pipeline is contractual congestion rather than physical congestion. MDL suggests that Gas Industry Co should refocus and concentrate on the Testing Investment Options project.

Genesis thinks Gas Industry Co should evaluate options for improvement based on the near term market needs. Greymouth also believes that prioritising is necessary, but proposes that the lack of competition caused by grandfathering must be dealt with first.

MGUG does not agree with passing the pen to parties to the codes. It proposes a continuation of the project management approach, but using a professional project manager. The project should also allow for other stakeholders, including consumers and regulators, to be involved.

While Vector is keen that the industry progresses the PEA's suggested reforms, it is concerned that Gas Industry Co simultaneously pursuing a counterfactual design could conflict with the Gas Industry Co's role in assessing code changes, and hence undermine evolutionary convergence. Vector suggests that, if Gas Industry Co does wish to develop its own design, it should step aside from its code change roles.)

5.3 Gas Industry Co comment

An industry response to the PEA's proposals is uncertain...

From submissions it is clear that not all parties to the codes are eager to see changes to the current arrangements, nor are they aligned in what changes they think are necessary. This suggests that Gas Industry Co should not rely too heavily on the industry achieving improvements through industry initiatives.

Also, as discussed above in Section 3.3, Gas Industry Co is not persuaded by the 'no constraint, therefore no action needed' view of some submitters. We emphasise that we strongly agree with the PEA's observation that '[g]iven that the time scale for making changes is long and some risks could emerge on shorter time frames, this suggests that there are no grounds for delay.' A number of submissions also recognise that the 'do nothing option' is unwise given the lead time for industry changes and the significant degree of uncertainty about future supply and demand scenarios.

... so Gas Industry Co will press on with its policy development process...

While Gas Industry Co still prefers industry to develop its own response to the PEA's analysis, and is still eager to assist where possible, our review of the submissions leaves us less confident than before that the industry will evolve the current access arrangements. We therefore consider that more reliance should be placed on Gas Industry Co's policy development process, while still recognising the possibility of a TSO/Shipper response. The next steps GIC proposes to undertake are set out in Section 6 below, Conclusion and Next Steps.

6

Conclusions and Next Steps

The PEA process has been exhaustive and detailed, and provides a solid foundation for improvement

Through analysis, meetings, workshops, and industry feedback, the PEA and its advisers have spent the best part of two years considering transmission access arrangements, diagnosing problems and proposing remedies. Building on that substantial body of work, the industry now has the opportunity to design specific improvements.

Gas Industry Co believes it is prudent to now press on to design and implement those improvements

Gas Industry Co is not persuaded by the 'no constraint, therefore no action needed' view of some submitters. We strongly agree with the PEA's observation that '[g]iven that the time scale for making changes is long and some risks could emerge on shorter time frames, this suggests that there are no grounds for delay.' A number of submissions also recognise that the 'do nothing option' is unwise given the lead time for industry changes and the significant degree of uncertainty about future supply and demand scenarios.

We encourage Code participants to progress this work...

We are encouraged that Vector's submission indicates its willingness to run a process to address the issues; and we believe it is well positioned to take a leadership role, with help from MDL. On the other hand, we are concerned that several shippers are satisfied with the status quo, and do not wish to see any change.

Gas Industry Co will support industry initiatives, but must also respect its own policy development role...

We do not think it is acceptable, or in line with our industry body role, for Gas Industry Co to be a mere observer, waiting to see whether industry initiatives will bear fruit. Nor do we think it is compatible with that role to delay our analysis because there is no industry agreement on the nature, scale and urgency of the problem. Rather, we must view the issues through the lens of the Part 4A Gas Act objectives and powers, identify the best solution (which may not be the most popular one), and promote it in a timely way. Accordingly, while we should support the industry efforts, we must be prepared to step in with alternative proposals if industry processes should stall.

In summary, as recommended by the PEA, we will invite code signatories to adopt and operationalise the PEA's guiding principles, and to provide Gas Industry Co with a plan of how improvements will be

implemented. We also encourage the industry to allow for an inclusive, project-based process that will permit the views of end users and other stakeholders to be heard, as the PEA proposes.

However, the issues are of sufficient gravity, and industry submissions sufficiently diverse, that Gas Industry Co should also progress a counterfactual design, including obtaining feedback from stakeholders as our thinking develops. Ultimately, if progress is not made by the industry, we can recommend regulation in accordance with our Gas Act responsibilities.

... accordingly, Gas Industry Co will develop its own backstop counterfactual design...

Gas Industry Co will therefore be continuing the Transmission Access and Capacity Pricing Project through its policy development process. While this will involve project management disciplines, we do not consider that it is necessary to appoint an independent Project Manager (as proposed by MGUG). Rather, the project will continue under the GTIP framework, calling on external experts as required and with recourse to the PEA and PSA as required.

... while continuing to support industry initiated code changes

Gas Industry Co has no wish or power to prevent any party to the MPOC or VTC from developing and proposing improvements through the code change processes. We do not accept the view of some submitters that our appellate role in considering code changes is incompatible with our policy development process. The two processes are well established (although we acknowledge the suggestions of some submitters that the code change mechanism could be improved, perhaps as part of a response to the PEA's proposals), although there are a number of options for how they might interact. We will remain alert to the possibility of conflict or similar issues, and note that there are various options to deal with these if they arise. In particular, if an industry plan progresses in robust and timely fashion it would be possible for Gas Industry Co to reduce or defer elements of its policy development. Good and proactive communications should also ensure a 'no surprises' approach.

The Next Steps will therefore involve Gas Industry Co leading a policy development process in line with its standard practice of identifying and consulting on options as its work progresses. In light of submissions and our above analysis we have revised the next steps proposed in our GTIP Status Update (see Figure 2 above) as illustrated in Figure 3 below.

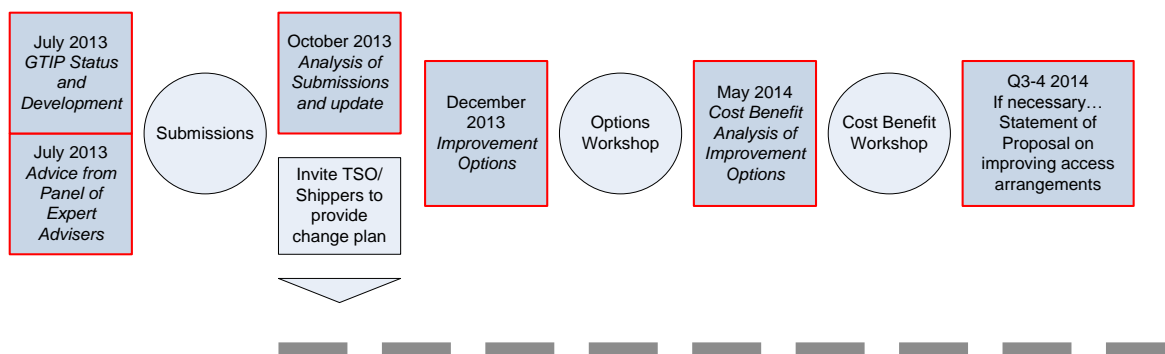
Key elements involve Gas Industry Co:

- f) inviting participants to provide a change plan, as proposed by the PEA;
- g) preparing an Improvement Options paper which will conclude and extend the foundation work of the PEA;
- h) holding a workshop and inviting submissions on the Improvement Options paper;
- i) developing a cost-benefit analysis of the preferred option; and

- j) if necessary, preparing a Statement of Proposal that may include regulated terms and conditions of access.

The above will be influenced by any initiatives taken by code participants, and by our on-going dialogue with stakeholders.

GIC (revised) Next Steps.....



TSO/Shippers (possible) Next Steps.....

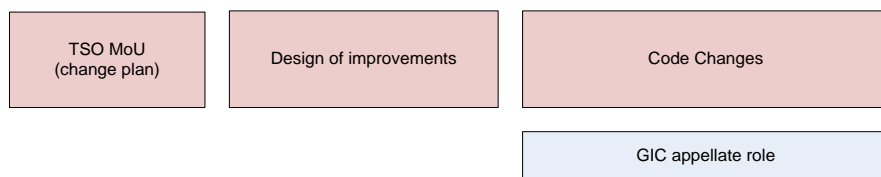


Figure 3 – Revised next steps in the Transmission Access and Capacity Pricing Project

Areas of attention, and next engagement on design issues

In Table 1 we suggested a possible set of design elements for a set of improvements that would address the problems identified by the PEA.

We aim to have our preliminary views on the counterfactual design set out in an advisory paper before the end of 2013 (subject to other priorities and issues that may arise as the work progresses) . We anticipate holding design workshops with stakeholders early in 2014, leading to a further paper describing the detailed design options, and cost benefit analysis inputs, by the end of the first quarter of 2014. Steps beyond this point, and timing of those, will depend on industry responses and on any separate industry response to Gas Industry Co’s invitation to it to adopt and operationalise the PEA’s principles.

In summary, Gas Industry Co’s counterfactual design process will:

- ensure forward momentum is maintained;
- allow for broad analysis - Gas Industry Co is well-placed to consider solutions that may be less attractive to pipeline owners or code signatories seeking minimal change;
- be inclusive – any stakeholder is able to participate in Gas Industry Co’s consultation processes; and
- perhaps most importantly, provide a strong incentive for pipeline owners and their customers to develop code changes in a timely fashion.

Appendix A Foreword of Gas Industry Co's July 2013 GTIP Status Update (GTIP Status Update)

This report from Gas Industry Co on the Status of the Gas Transmission Investment Programme (GTIP) is being released in conjunction with the second substantive advice report from the Panel of Expert Advisers (PEA) in relation to improving transmission access arrangements, entitled *Advice from Panel of Expert Advisers, Report to Gas Industry Company, July 2013*.

Both reports have been informed by an industry workshop held on 11 April, at which stakeholders provided feedback on GTIP work and on the path forward. In particular, a workshop presentation from the PEA focussed on options for improved transmission access and pricing arrangements, including on a potential 'convergence' of the two existing multilateral access codes: the Maui Pipeline Operating Code (MPOC) and the Vector Transmission Code (VTC). The workshop discussed a path forward towards defining and implementing a preferred option for improved arrangements in 2014.

Underlying that discussion was market information showing that market demand for firm capacity had reduced and the consequential risks of constraint had eased. This supports the PEA's view that an on-going 'evolutionary' approach to development of transmission arrangements is the most appropriate, but with an associated commitment that the industry needs to press on with a set of improvements before any future constraint bites.

In our view the GTIP remains the best framework for this work, and for orienting related industry initiatives and Gas Industry Co's obligation to fulfil the requirements and goals of Part 4A of the Gas Act 1992 and the Government Policy Statement on Gas Governance 2008. This Gas Industry Co paper is intended to confirm how the work to date, including the PEA's second advice report, fits within that framework and point to the path forward.

The ideas presented at the workshop and the feedback from workshop participants are reflected in the PEA's advice and this Gas Industry Co's GTIP review. We seek submissions on both papers.

Steve Bielby

GTIP Project Sponsor

Appendix B Executive Summary of PEA's July 2013 advice to GIC paper (PEA Paper)

Executive summary

This paper is the second report produced by the Panel of Expert Advisers (PEA) in relation to its review of pipeline capacity access and pricing arrangements. This report provides advice to Gas Industry Company (GIC) on measures to address concerns regarding the availability of gas transmission capacity in New Zealand.

These concerns arose in 2009 when Vector advised that its North Pipeline System, supplying gas to the Waikato, greater Auckland and Northland, had reached full capacity, and it was unable to issue additional reserved capacity to customers. Since that time, important changes have been made to address urgent access issues (for example the package of Bridge Commitments agreed among Vector and shippers).

Although the immediate concerns have reduced, the experience since 2009 has highlighted broader access and capacity pricing concerns across both the Vector and Maui pipeline systems. This report largely focuses on these broader issues, and sets out a recommended pathway for addressing them.

Current arrangements not suited to addressing pipeline congestion

Present arrangements largely rely on non-price mechanisms to allocate pipeline capacity. These arrangements have shortcomings when there is expected or actual pipeline congestion. The key concerns are:

- Access arrangements do not provide for efficient allocation of capacity, both physical and commercial, as it becomes scarce.
- There are inadequate transparent price signals to inform pipeline investment and operating decisions, and provide advance warning of expected pipeline congestion. There is also limited transparency about the physical state of the pipeline systems and contractual arrangements for use of the pipeline systems.
- The current arrangements provide preferential rights to incumbents, which can hinder new entrants and downstream competition, and foster a perception that arrangements are biased toward the interests of some parties.
- There is an increased risk of inefficient intervention to address future congestion, because it can emerge with little or no warning (due to muted or absent forward price signals) and there are no demonstrably neutral and transparent mechanisms to allocate capacity if it becomes scarce.

Characteristics of a sound pipeline capacity access and pricing regime

The PEA has developed a set of high level characteristics that a sound pipeline capacity access and pricing regime would possess. These are:

- Pipeline owners should offer a menu of capacity rights (i.e. non-firm and firm, with firm rights offered over a range of durations). This would allow shippers to seek the rights that

best match their needs. Furthermore, given that many shippers need to use both the Maui and Vector pipeline systems, the menus of rights should be harmonised across both pipeline systems.

- When capacity is scarce, it should be allocated based on willingness to pay. This offers the greatest assurance that capacity rights will be held and used by the parties who can derive the most value from them. This process will also generate price signals, which can inform investment and operating decisions by pipeline owners, shippers, producers and gas users.
- Pipeline information should be made available on a transparent and user friendly basis. This facilitates the proper pricing of capacity, promotes market confidence, and reduces the scope for concerns to arise about preferential information access (for example to gas shippers affiliated with pipeline owners).
- There should be efficient arrangements for evolving and enforcing the rules relating to pipeline capacity access and pricing. This will help to ensure that the rules reflect the prevailing needs of the industry, and that rule change and enforcement processes do not discriminate in favour of, or against, the interests of any particular participants.

Alternative approaches to improve arrangements

In April 2013, an industry workshop took place at which a range of approaches for improving current arrangements were discussed. Participants agreed that, together with the status quo, the following options spanned the reasonable alternatives:

- Capacity Follows the End User – in broad terms, this would involve system operators (SOs) transferring capacity from an incumbent to a new retailer when an end user switches supplier. A possible form of this option was described in GIC’s paper “Retail Competition and Transmission Capacity: Statement of Proposal”, November 2010.
- Capacity Auctioning – under this option, when capacity is scarce, a reduced amount of capacity would be grandfathered to incumbent shippers (say 80% of the shipper’s previous capacity booking, rather than 100%). This would free up some capacity to be sold by an auction process. A form of this option was described in the PEA’s preliminary advice.
- Evolutionary Convergence – under this approach changes would be made progressively to both pipeline systems to improve their access provisions, such as introducing capacity allocation based on willingness to pay when scarcity occurs, and publishing transparent price signals for capacity.
- Full Integration – In essence this approach would integrate the transmission market with the gas market across both pipeline systems, allowing a delivered wholesale gas price to be discovered at each offtake point. A variant of this approach was described in the Market Reform submission on the PEA’s preliminary advice to GIC.

The PEA considers that Status Quo would not be sustainable as it does not address the key concerns with current arrangements. The Capacity Follows the End User and Capacity Auctioning approaches could resolve some concerns, but would not address all of the weaknesses with the current arrangements. For these reasons, the PEA does not regard these alternatives as being attractive.

Both the Evolutionary Convergence and Full Integration approaches offer comprehensive solutions to the problems identified with current arrangements. However, the Full Integration approach has much higher implementation risks and costs. It would involve extensive changes to both gas market and gas transmission arrangements, and most of these would need to come into effect at a common time. This would require a greater number of design choices to be made at the outset despite significant uncertainty about future patterns and levels of gas demand.

The Evolutionary Convergence approach should have much lower implementation costs and risks, provided there is disciplined and controlled change management. It would allow change to be staged through time, and coordinated to take account of other issues, such as the life-cycle for IT systems. It should have the greatest level of dynamic efficiency. Furthermore, the Evolutionary Convergence approach appears to be feasible for the following reasons:

- Contrary to widely held perceptions, there is a high degree of commonality between the underlying access arrangements for the Maui and Vector pipeline systems. For example, both provide for firm and non-firm transmission services, and contain provisions relating to information transparency. Also there is commonality now in IT and operational services. These areas of commonality provide a ready foundation for convergent development of access arrangements.
- Governance arrangements across the two pipeline systems share many important features. Both are subject to revenue control under Part IV of the Commerce Act, which means that pipeline owners should be relatively neutral to pipeline capacity access and pricing arrangements, provided these do not materially affect their regulated revenues or costs. Both access codes provide users with a high degree of influence over the code change process, and make GIC the final decision maker (subject to limited rights of veto by the respective pipeline owner). These features suggest that governance arrangements for each pipeline system should be conducive to making the necessary operational changes and that the governance arrangements themselves can evolve to support efficient pipeline capacity access and pricing. Lastly, the two pipeline systems are complementary to each other with limited opportunities to compete. This means they should have a strong collective interest in promoting sound and harmonised access arrangements.

Guiding principles for moving forward

The PEA considers that the Evolutionary Convergence approach is strongly preferred over other options. In light of this judgment, the PEA has developed a set of recommended guiding principles for moving forward. These are set out in Chapter 6, and summarised below:

Offer mix of transmission services across both pipeline systems

Firm and non-firm transmission services should be available to shippers on both gas pipeline systems, with rights to the firm service being offered for a range of contract durations, and allocated based on willingness to pay. Once ex ante rights are allocated, they should be tradable among parties.

To allow shippers to develop contract portfolios that best match their likely needs (which will generally entail shipping across both pipeline systems), the firm and non-firm services offered on each pipeline system should be evolved to provide a harmonised set of products across both pipeline systems.

Determination of physical transmission capacity

Pipeline owners should be responsible for determining the total physical capacity that is available to be offered to each location or zone, for a given security standard. The resulting capacity limits at different locations should be published by the respective pipeline owners. To assist in building confidence about future physical capacity determinations (especially as ex ante contractual rights could be offered for a number of years ahead), the pipeline owners should publish the methodology they use to determine physical capacity, including their relevant security standards. These methodologies should be stable over time.

Proportion of physical capacity available as firm service and contract durations

The proportion of physical capacity to be made available on firm contracts should be determined by a governance process that reflects the wider interests of shippers, users and pipeline owners.

A relatively simple term structure and release profile for capacity contracts should be adopted at the outset, and these should be evolved over time via a process that reflects the wider interests of pipeline users.

Nominations regime to allow for scaling when capacity scarcity arises

There is a strong case for moving to a regime where nominations apply for both firm and non-firm services to facilitate efficient scaling when congestion arises. This means nominations would apply at least for those zones on the pipelines where congestion could potentially arise during the term of the offered capacity contracts. Furthermore, parties should have an incentive to ensure that such nominations reflect the best possible information. One means of achieving this would be for nominations to form the basis for transmission charges.

Transition away from grandfathering and supplementary agreements

Current arrangements that give incumbent shippers a preferential renewal right to firm capacity (Vector reserved capacity rights based on a contract's previous capacity reservations) or preferential rights to physical capacity if curtailment arises (MPOC category B nomination provisions) should be phased out.

Consideration should also be given to existing so-called "supplementary agreements" that provide firm capacity rights to specific parties for a defined period. Pipeline owners should plan to phase these out in order to convert them over time to new generic capacity products subject to code changes. These arrangements should not preclude transparent and efficient discounting or capital expenditure recovery.

'Bolt on' arrangements for capacity pricing when scarcity occurs

Where capacity scarcity may arise, the primary allocation of contracts should be based on willingness to pay. This will allow a forward price curve to be discovered for capacity rights. A relatively simple auction process should satisfy these requirements, and should be applied (at least) to those pipeline zones or routes where congestion could plausibly arise during the term of the offered contracts.

Consideration should also be given to introducing a mechanism to generate price signals for allocating scarce pipeline capacity during actual physical curtailment situations. At the outset, it is probably sufficient that rights to firm service be tradable within a zone without requiring pipeline owner consent, with prices for such trades being published. More sophisticated approaches could be introduced over time, in response to market need.

Treatment of congestion rents

Congestion rents would have different characteristics depending on the process of discovering them. They may be volatile and difficult to predict in advance. In any event it would be problematic for pipeline owners to be allocated these rents, given the revenue cap regime that applies to transmission pipelines under Part IV of the Commerce Act.

Instead, any congestion rents should be distributed in a way that minimises distortions to long term bidding for firmness and short term incentives in relation to shipping.

Transparency of information

The guiding principle should be that all pipeline information relevant to the formation of prices for capacity rights should be made widely available. Information transparency is expected to provide benefits across many parties including gas users, shippers, producers, SOs and pipeline owners. For these reasons, the cost recovery mechanism for information provision should be fairly broadly based, such as inclusion within allowable transmission operating costs to be recovered under Part IV of the Commerce Act, or collection via a flat charge or levy.

Information providers

Information on each pipeline is currently provided by the relevant pipeline owner, either directly or via an agent appointed to undertake that task. A further possible evolution would be for the information provision function to be externalised from the two pipeline systems. This is not regarded as a priority issue, but may be attractive as part of the evolutionary path.

Governance for pipeline capacity access and pricing

Given the objective of evolving toward a harmonised set of capacity access and pricing arrangements across both pipelines, there is a good case for also evolving toward common governance arrangements for these issues. There are a number of different approaches for achieving this, and these we discuss above.

Dispute resolution provisions

As with code development processes, there is a high degree of commonality in the dispute resolution provisions contained in the MPOC and VTC, and there may be benefits in further convergence.

Conclusion

The PEA considers that the Evolutionary Convergence approach can meet all of the characteristics of a well-functioning market. In particular:

- **Availability of a menu of transmission services across both pipeline systems** – the firm and non-firm services currently provided for on the Maui and Vector systems can be progressively evolved and harmonised to allow shippers to seek the mix of rights that best match their needs.
- **Allocation of scarce capacity based on willingness to pay** – arrangements can be ‘bolted on’ to provide for price-based allocations. The initial focus would be on the primary allocation of ex ante rights, but this could be extended to secondary allocations when curtailment occurs. Grandfathering would be phased out.
- **Availability of pipeline information** – the existing transparency provisions on the Maui system provide a good foundation and can be further developed and extended across both systems.
- **Efficient arrangements for evolving and enforcing the pipeline capacity access and pricing rules** – current governance arrangements appear conducive to making the necessary operational changes, and should be capable themselves of evolving to reflect future needs.

Given that it will take some time to design and implement the detail of necessary changes, the PEA believes that the improvement process should start immediately.

In considering the specific milestones for making progress, a guiding principle should be that changes are made in a timely manner based upon current and expected developments in the state of the gas market. At each proposed step along the way, there would be a public cost-benefit analysis justification.

Indicators of success

The PEA believes that progress should be assessed against the following indicators:

1. A memorandum of understanding has been agreed between Maui and Vector to develop and implement governance change processes and provide for the development of an implementation plan.
2. Change requests to implement governance have been formulated and proposed by November 2013.
3. Governance arrangements are in place to facilitate implementation of operational changes in a timely way.
4. There is sufficient information transparency for industry and wider stakeholders to be confident that they can assess the likelihood of congestion on pipeline systems (Maui and Vector).
5. There is confidence in the industry that any short term excess demand for capacity can be managed in a way that ensures that scarce capacity is allocated to the highest value uses.
6. Planning for a mechanism to enable price signals for scarcity on a longer term timeframe is in place, and will be implemented in accordance with cost-benefit criteria.
7. GIC is able to provide assurance to the government that any future shortage of capacity will be able to be handled in an efficient way.

Recommendations

The PEA recommends that GIC:

- a. Adopts the guiding principles set out in this paper and considers industry feedback where appropriate;
- b. Invites signatories to the MPOC and VTC to adopt and operationalise the guiding principles by:
 - i. Developing an implementation plan that:
 - I. Includes milestones that take account of shorter and longer term needs;
 - II. Provides for identified changes to be made in a timely manner, subject to a public cost-benefit analysis justification;
 - ii. Establishing governance arrangements to support delivery of the plan;
 - iii. Reporting regularly to GIC on progress against the plan;
 - iv. Consulting with wider industry as appropriate;
- c. Provides feedback to MPOC and VTC participants on the proposed implementation plan and milestones; and
- d. Considers regulatory options should they be required.

Appendix C CE Gas Industry Co Summary of Submissions

In addition to providing specific feedback on the questions asked, submitters also provided more general feedback, which is summarised in **Table 2**. A summary of specific feedback is provided in **Table 3**. Questions 1 to 6 relate to Gas Industry Co’s GTIP Status Update paper, and questions 7 to 14 relate to the PEA’s Transmission Access Advice paper.

Note that some submitters did not use the submissions template provided. In these cases we have tried to match portions of their submissions to the relevant questions in the summary table. In the interests of comparability and brevity submitter’s views are paraphrased. We hope all the essential elements have been captured, but readers may also wish to view the unabridged submissions. All of these are available on the Gas Industry Co website, (www.gasindustry.co.nz).

Table 2 - General feedback

<i>Stakeholder</i>	<i>Feedback</i>
Contact	-
Genesis	<p>Genesis suggests that GIC should give priority to developing the interruptible market, improving information transparency, and encouraging common governance.</p> <p>Genesis suggests further work is required to:</p> <ul style="list-style-type: none"> • understand the interruptible market as it offers the best means of managing congestion at low cost. It notes that an effective interruptible market relies on transparency. • determine the optimal phase out of grandfathering, and suggests 10 years or more would be appropriate. • provide greater transparency, including through a nominations regime.
Greymouth	<p>Greymouth considers that the PEA has done a good job, but its proposals are just a guiding framework. GIC has not delivered any meaningful change in relation to transmission access and pricing in the last 3-4 years and the regulatory counterfactual remains the Capacity Follows the End User regulations. These regulations could be the first step in Evolutionary Convergence.</p> <p>In progressing the work GIC must recognise that industry resources are stretched, but a mid-2014 ‘improvements design forum’ seems too far ahead; another year of inaction is unacceptable. Greymouth is prepared to participate.</p>
MDL	<p>The Maui pipeline is expected to have sufficient capacity under all scenarios in the Supply and Demand Outlook, and most aspects of the problem definition do not seem relevant, so these matters are not a concern to MDL.</p> <p>The Vector pipeline suffers from contractual congestion, not physical congestion. MDL sees common governance of the pipeline codes as unlikely.</p> <p>GTIP should be refocused on designing an investment test.</p>
MGUG	MGUG believes there are no grounds for delay, and is concerned that the project

<i>Stakeholder</i>	<i>Feedback</i>
	<p>based approach will be lost in GIC's proposed way forward. It is also unhappy that parties with a vested interest in the outcomes and in competition with each other should be 'given the pen', without the involvement of consumers, regulatory and other stakeholders. It suggests a continued project focus with the appointment of an independent project manager.</p> <p>MGUG supports evolutionary convergence, but believes it is a process rather than an option.</p> <p>MGUG believes that transparency is a key characteristic of a sound access and pricing regime, but is unsure if setting MPOC arrangements as the standard is adequate.</p>
MRP	<p>The transmission market in New Zealand should not be 'pure' as there are social and political considerations to take into account. For example, end users need confidence (such as grandfathering provides) of continuity of supply. Also, problems would arise if non-firm shippers were expected to curtail at times of congestion. Rather, large users should be curtailed and compensated by those who are not curtailed.</p>
Vector	<p>Vector generally supports evolutionary convergence, and the 'guiding principles' (providing they are slightly amended and are used alongside, and deemed consistent by GIC with, the Gas Act and GPS objectives).</p> <p>Vector believes the MPOC and VTC code change processes need to be improved, and that GIC should work with MDL and Vector on this as a priority.</p> <p>Vector prefers that the GIC not develop a design of its preferred option for improvement, but to leave this to the industry.</p> <p>Vector proposes a 'joint development process' for progressing convergence, with Vector and MDL working with an industry advisory group comprising TSOs, shippers and an economist.</p> <p>The recovery of the costs of convergence need to be allowed for, and convergence should be progressed 'without delay, but at a measured pace'.</p> <p>The PEA's suggestion of governance change requests being proposed by November 2013 is unrealistic.</p> <p>GIC should not proceed with the Testing Investment Options Project or other non-urgent matters.</p>

Table 3 - Specific feedback

Q1	<i>Do you agree with our assessment of the GTIP thus far? If not, where does your assessment differ from ours?</i>
Contact	GTIP has made good progress, but that may not improve transmission capacity.
Genesis	Yes.
Greymouth	GTIP progress has been slow in some areas. The Panel of Strategic Advisers (PSA) should have been used to provide strategic direction on Transmission Access and this would have saved time.
MDL	<p><u>Vector's Capacity Determination Project</u></p> <p>Agrees it is complete. Notes that published capacity is ex-ante based on worst-case (1 in 20 years) scenario assumptions. Actual available capacity on a day can be significantly higher.</p>

	<p><u>Supply and Demand Outlook Project</u> Agrees it is complete. Notes that the Maui Pipeline is expected to have sufficient capacity under all scenarios presented in report, so should not raise regulatory concerns.</p> <p><u>Transmission Market Disclosures Project</u> Agrees still in progress. Supports high degree of transparency on pipeline information.</p> <p><u>Backstop Information Gathering Project</u> Agrees it is complete.</p> <p><u>Transmission Access and Capacity Project</u> Notes project originally aimed at Vector pipeline. Considers there should be no concern over access and capacity on the Maui Pipeline. Pipeline is expected to have sufficient capacity in the foreseeable future, and the MPOC arrangements already allow maximum daily allocation and use of capacity. Agrees that MDL needs to reconsider the pricing of AQ, and it expects to do so as part of a CPP application, and that that will be consulted on.</p> <p><u>Gas Trading Arrangements Project</u> Agrees that it should be left suspended.</p>
MGUG	<p>Agrees in general except it notes that on Vector’s Capacity Determination Project it raised points that were acknowledged but disregarded by Vector. MGUG is not satisfied with the outcome of the RPO definition and basis for determining maximum contractual capacity.</p> <p>MGUG supports evolutionary convergence but considers that this does not exclude developing, for example, the ‘capacity follows end user’ option.</p> <p>MGUG disagree with the process going forward. It considers the programme to date has been successful due to its project approach, and that the project focus should continue with a defined governance arrangement supporting delivery of agreed milestones. It suggests an independent professional project manager be appointed to manage the project.</p>
MRP	Yes.
Vector	Yes, except Vector does not believe that consideration of a regulatory investment test is warranted (see also our response to questions 2 and 6).
Q2	<i>Are there any Projects you think should be given greater or lesser attention by Gas Industry Co? Are there any other projects you think should be considered as part of GTIP?</i>
Contact	Considers there is no evidence that capacity constraint still exists, or is likely to return. Therefore shift focus to measures that could increase the size of the gas market.
Genesis	More information is needed on size and potential to develop an interruptible market. Should consider how to use freed up capacity from decline in gas-fired generation.
Greymouth	-
MDL	<p>MDL considers it is important for GIC to shift its priority, and now begin the Regulatory Projects because:</p> <p>there is little need for short-term investment in new capacity (MDL considers GTIP arose from contractual rather than physical congestion);</p> <p>there is a current need to facilitate investment to maintain existing capacity; and</p> <p>Part 4 regulation does not include an Investment Test or provide for capital expenditure that is more than 20% above historical average. This effectively rules out any significant gas transmission investment under a Default Price-</p>

	quality Path (DPP), which means that appropriate incentives for gas transmission investments are not in place.
MGUG	GIC needs to consider the design for an Investment Test for gas transmission and distribution businesses. GIC should also become the repository for all statutory and other material information on the market that is currently difficult to locate e.g. non-standard agreements.
MRP	MRP and other shippers are not experts on transmissions pipeline systems. Suggests that Vector's capacity analysis should be subject to critical independent expert review, possibly carried out by the GIC.
Vector	The Testing Investment Options project is not a priority, and would best be left so that the GIC and industry can focus on establishing the evolutionary convergence approach (see also our response to Q6).
Q3	<i>Do you agree that the characteristics of a well-functioning transmission market, as described by the PEA, could be used as criteria for evaluating regulatory option?</i>
Contact	Yes, but also consider cost and existing oversight of the Commerce Commission.
Genesis	Yes.
Greymouth	Hard objectives (improving competition) should take precedence over soft objectives (transparency etc)
MDL	No. The characteristics are interesting but not definitive. Any regulation needs to be under the terms of the Gas Act 1992, including section 43ZN objectives. Neither MDL nor the Maui Pipeline operating regime contravenes any objectives of the Gas Act.
MGUG	Yes.
MRP	Yes.
Vector	Yes.
Q4	<i>Do you agree with the proposed way forward for the Information Projects?</i>
Contact	Yes.
Genesis	Suggest transparency can be improved with a more extensive daily nomination regime applying to all receipt and delivery points on the Vector system greater than 5TJ/day. These points also require their own balancing and peaking pool. Greater transparency will help show likelihood of future congestion, whether more complex pricing is needed to create investment signals, enable better gas balancing and demand management, and consequently improve efficiency.
Greymouth	-
MDL	MDL considers that for the Maui pipeline all necessary and sufficient information for technical understanding is provided. On other pipelines, MDL believes accessible information on gas flows for each large meter will assist sound discussion of issues.
MGUG	Does not agree that the Transmission Market Disclosure Project should be the last GTIP project. There is a close link with the Market Projects, including the incomplete dialogue with Vector. It is not clear that both the Maui and Vector systems provide the level of transparency sought by the PEA (s4.3 on page 18).
MRP	Focus should be identifying what information disclosure is necessary for efficiency rather than the current view that almost all information should be publically available.

Vector	Yes, given GIC's explanation that the Markets Disclosures Project will be the final GTIP project, and will be a 'catch-all' used after all other projects.
Q5	<i>Do you agree with the proposed way forward for the Market Projects?</i>
Contact	Cost-benefit analysis needed.
Genesis	Yes. But suggests GIC evaluates options based on the near term market needs, and then prioritise different development paths for the long term market benefit.
Greymouth	The main problem is the lack of competition caused by grandfathering and that must be dealt with first.
MDL	Minor changes to the MPOC can achieve most of the objectives sought. Eg revising the pricing and facilitating trading of AQ will provide price signals for users concerned about capacity, and allow users to manage curtailment risk.
MGUG	No – see discussion on Q4.
MRP	Yes. But it is possible that the outcome from the shippers' discussions may not result in the changes proposed by the PEA.
Vector	No. The GIC should not develop a design of its preferred option for improvement as this would conflict with assessing code changes, and hence undermine evolutionary convergence. The Market Projects should be focused on supporting evolutionary convergence. Or, GIC should step aside from its code change roles if it wishes to develop a preferred option design.
Q6	<i>Do you agree with the proposed way forward for the Regulatory Projects?</i>
Contact	The project should wait until other projects are progressed.
Genesis	Too early to consider. Concept's demand and supply report suggests no pressing capacity issues for at least 10 years. Immediate issues are: developing common governance; understanding the interruptible market; and improving information transparency.
Greymouth	-
MDL	Developing a regulatory investment test for new and replacement investments should be a high priority.
MGUG	Agrees, except GIC needs to be more proactive than waiting for significant investments to occur. Given the commercial nature of the participants, it is not clear that investment will proceed even if justified. This should be investigated, including work on a regulatory investment test.
MRP	Yes.
Vector	No. The Testing Investment Options project is not a priority at the moment, and would best be left to allow GIC and industry to focus on evolutionary convergence.
Q7	<i>Do you agree with the Problem Definition? If not, please explain your reasons. (see PEA's Second Advice paper, Section 1.2)</i>
Contact	No. Capacity is no longer scarce. Also, bullets 5-8 are subjective and require evidence.
Genesis	Do not agree that in practice 'Grandfathering of capacity may reduce competition to supply downstream users' given that there is:

	<p>no transmission capacity constraint at present; and declining mass market gas demand over time.</p> <p>The mass market is too small for more competition to bring an efficiency gain. Also, removing grandfathered rights adds uncertainty and potentially increases transaction costs.</p>
Greymouth	The main problem is the lack of competition caused by grandfathering and that must be dealt with first.
MDL	<p>No. The restated problem definition does not distinguish adequately between Maui and Vector pipeline issues.</p> <p>Re: <i>Efficient allocation of scarce capacity, both physical and commercial (i.e. as defined by contracts/codes)</i></p> <p>MDL considers allocation of capacity on Maui Pipeline is efficient. Pricing of capacity may need to be reviewed, but absent a supply constraint this has not been a problem for MDL.</p> <p>Re: <i>Price signals to facilitate efficient investment</i></p> <p>MDL agrees in principle, but current price control regulations may prevent such price signals being useful for efficient investment.</p> <p>Re: <i>Grandfathering of capacity may reduce competition to supply downstream users</i></p> <p>Not a sufficient problem on the Maui Pipeline to warrant any fix.</p> <p>Re: <i>Unnecessary costs may arise from different Maui and Vector access arrangements</i></p> <p>Perhaps, but any such costs must be set against the costs of change.</p> <p>Re: <i>End users do not secure long term capacity rights on the Maui pipeline</i></p> <p>Users could apply for AQ but have been satisfied with current arrangements.</p>
MGUG	Yes.
MRP	<p>The security of supply value of grandfathering has been ignored. Also, the report is not specific about what information need to be made transparency, nor does it explain why a nominations regime is necessary.</p> <p>In addition the proposal may create a problem if new loads are permitted regardless of their impact on the pipeline.</p>
Vector	Yes.
Q8	<i>Do you agree with the assessment of the current state of the market for transmission capacity? If not, please explain your reasons (see PEA's Second Advice paper, Section 2.2)</i>
Contact	No. Capacity congestion will not occur since gas-fired generation demand has reduced.
Genesis	Yes.
Greymouth	-
MDL	<p>No, the capacity concerns are exaggerated. Vector congestion was contractual, not physical. The Vector regime leads to underutilisation and artificial scarcity because:</p> <p>the ex-ante capacity allocations are based on conservative pipeline capacity, less than actually available; and</p> <p>Vector's overrun charges incentivize their shippers to overbook capacity. Vector shippers also face constraints in on-the-day allocation of capacity because:</p> <ul style="list-style-type: none"> o without nominations, initially allocated but unutilised ex-ante capacity

	<p>cannot be used by any other shipper on the day unless the first shipper explicitly makes it available for trade;</p> <ul style="list-style-type: none"> ○ the point-to-point allocation of Vector capacity makes it difficult to reallocate for use at another point; and ○ contractual congestion should not arise on the Maui Pipeline because the MPOC regime allows full utilisation of all physical capacity available each day.
MGUG	<p>Yes, in general. But the assessment for Vector's system ignores interruptible capacity. Refining NZ still struggles to get as much gas as it wants on its interruptible basis. Physical capacity constraints have been a feature of the North pipeline for some time. The possibility of gas users limiting their demand because of potential congestion raises the need to broaden the analysis beyond committed capacity.</p>
MRP	<p>MRP agrees that there should be an efficient allocation of capacity but notes good reasons for maintaining grandfathering rights, such as providing continuity or security of supply to shippers' existing business and residential customers. The specific information needed to enhance transparency should be identified. Observes that the Executive Summary states that 'there is a strong case for moving to a regime where nominations apply for both firm and non-firm services' but no case is made within the document.</p> <p>MRP agrees that price signals may assist in identifying the need for investment in the transmission system. However at no point is there any discussion on who will pay for any expansion of capacity; existing or new gas users. Also, it appears that all new gas loads with the exception of direct connects to transmission system would be provided with free entry and access to the existing transmission services regardless of their impact on the pipeline.</p>
Vector	<p>Yes, but notes that evolutionary convergence should be implemented without delay, at a measured pace and in a progressive and logical manner.</p>
Q9	<p><i>Do you consider that the PEA has considered all the reasonable options for improvement? If not, what other options would you wish to have considered? (see PEA's Second Advice paper, Chapter 5, Broad approaches to moving forward)</i></p>
Contact	<p>No. No evidence of market failure.</p>
Genesis	<p>No. More investigation and clarification of interruptible market is needed first.</p>
Greymouth	<p>Notes that there is only one regulatory counterfactual (Capacity Follows End User), and if industry fails to make changes, it should be implemented.</p>
MDL	<p>MDL has no other option to propose.</p>
MGUG	<p>Reasonable options were considered, but the case for them being exclusionary was not established. For example 'capacity follows the end user' and capacity auctioning are possible evolutionary steps.</p>
MRP	<p>No, although the PEA's proposals may well fit in with a 'market solution' MRP does not believe that in practice the operation of the proposed arrangements will result in acceptable outcomes. It prefers a Critical Contingency Management approach where large users are curtailed and compensated financially in a fair way.</p>
Vector	<p>Yes.</p>
Q10	<p><i>Do you agree that Evolutionary Convergence is the best approach to improving access arrangements? If not, what other option do you prefer? (see PEA's Second Advice paper, Chapter 5, Broad approaches to moving forward)</i></p>
Contact	<p>Can't tell without cost benefit analysis.</p>

Genesis	Yes.
Greymouth	Evolutionary convergence is the right process, but the first step should be to implement Capacity Follows End User regulation, and to publish information on uncommitted capacity, capacity queues etc.
MDL	<p>Broadly MDL agrees that Evolutionary Convergence is the most appropriate option to pursue, provided it accords with good international practice. In particular, MDL supports progressive change rather than a 'big bang' approach to:</p> <p>allocate capacity based on willingness to pay when scarcity arises; and generate and publish price signals about the value of capacity rights.</p> <p>MDL agrees it is desirable to find collaborative solution (but notes that convergence is not an objective by itself).</p>
MGUG	Evolutionary Convergence describes a pathway approach – it is not a solution to specific issues affecting access arrangements.
MRP	At present only the governance of the codes should be converged.
Vector	Yes.
Q11	<p><i>The PEA proposes a set of 'guiding principles'. Do you agree with these principles? If not, what alternatives would you propose?</i></p> <p><i>(see PEA's Second Advice paper, Chapter 6, Guiding principles for moving forward. Also summarised in bullet point format in Appendix A of Gas Industry Co's Status and Development paper)</i></p>
Contact	Can't tell without cost benefit analysis.
Genesis	Broadly Genesis agrees with guiding principles (except for the 'transition away from grandfathering and supplementary agreements') in the short and medium term. For grandfathering, Genesis suggests a longer transition to avoid market distortion and consequential cost. It proposes that transparent and developed interruptible market will improve matters in short to medium term.
Greymouth	-
MDL	<p>Guiding principles are the heart of the PEA report. MDL is concerned that they go well beyond the scope of issues that led to the GTIP. In particular:</p> <p>Re: Offer mix of harmonised transmission services across both systems</p> <p>MDL supports a mix of compatible transmission services across both systems, but these don't need to be identical or unified;</p> <p>dynamic capacity determinations, based on current and actual pipeline conditions, will almost always be higher than the conservative ex-ante estimate;</p> <p>MPOC allows a maximum of 70% of capacity (estimated ex-ante) to be AQ, but this can be adjusted if necessary;</p> <p>Nominations facilitate full allocation of:</p> <ul style="list-style-type: none"> ○ All capacity that exceeds the conservative ex-ante determinations; ○ Unutilised capacity, with no on-the-day nomination (which prevents hoarding); and <p>MDL does not agree that curtailment on the basis of usage in the preceding 12 months confers an in-perpetuity preference.</p> <p>Re: 'Bolt on' arrangements for capacity pricing when scarcity occurs</p> <p>MDL generally agrees with principle. However, Shipper nominations approved by the pipeline operator gives a close to real time capacity allocation, based on the</p>

	<p>best information available at the time. Also, MPOC allows Shippers to trade AQ with each other, allowing a secondary market for longer-term rights. This can provide price signals if capacity becomes scarce. This arrangement has already been 'bolted on'.</p> <p>Re: Improve transparency of information MDL generally agrees with principle and notes that MDL already provides a high degree of transparency.</p> <p>Re: Governance for pipeline capacity access and pricing Mostly MDL disagrees with the suggestions made under this principle: while MDL supports increased compatibility, it is concerned about misinterpretation of 'harmonisation'. Unification with the Vector regime would require fundamental changes to business arrangements; MDL does not agree with suggestions regarding a common governance arrangement for Maui and Vector pipelines; MDL agrees it would be useful and convenient for the MPOC and the VTC to avoid unnecessary differences. Eg MDL supports harmonised arrangements and matching requirements for technical standards, metering, gas quality assurance, and dispute resolution, and Vector applying greater incentives for primary balancing within its system; and MDL expects MPOC and VTC code changes can be coordinated, but there is no need for a common code development process. MDL agrees section 29 of the MPOC allows evolution.</p>
MGUG	MGUG notes that the guiding principles are secondary to the Gas Act objectives and characteristics of a well-functioning market.
MRP	In MRP's view transmission should not operate as a 'pure market'; social and political considerations must be taken into account. The value of grandfathering in providing security of supply should be recognised. In regard to nominations, no definitive proposal or case for its introduction has been made.
Vector	Vector agrees with the need for guiding principles. However, Chapter 6 of the PEA's paper is too discursive. For guiding principles to be useful, they need to be clearly and concisely expressed. The GIC has provided a good foundation for this in Appendix A to its consultation paper, but a few important points within the PEA's Chapter 6 have not been adequately captured. Vector suggests some modifications/additions in Appendix B of its paper, including a 'cost recovery' principle; that the cost of change be borne by market participants. The GIC should endorse the guiding principles as reflecting the objectives of the Gas Act and the GPS.
Q12	<i>Do you agree with the PEA's overall conclusion, including its 'indicators of success'? (see PEA's Second Advice paper, Chapter 7, Conclusion)</i>
Contact	Can't tell without cost benefit analysis.
Genesis	The indicators of success are theoretically sound, but hard to measure in practice.
Greymouth	Industry needs to agree how to facilitate the code change process. It is paramount that code changes only address a single issue to prevent undesirable changes piggy-backing on desirable changes. Vector and MDL should lead or facilitate code changes.
MDL	MDL broadly supports the overall characteristics of a well-functioning market proposed by the PEA. In particular it agrees that:

a compatible (not necessarily identical) menu of transmission services across both pipeline systems would be a positive development;
scarce capacity should be allocated based on willingness to pay where possible/practical; and
existing transparency on the Maui system provides a good foundation.

But MDL does not agree with the 'indicators of success', as noted below:

1. *An MoU has been agreed between Maui and Vector to develop and implement governance change processes and provide for the development of an implementation plan.*

MDL will consider arrangements for working with Vector in areas of mutual interest, but do not see that as an indicator of success.

2. *Change requests to implement governance have been formulated and proposed by November 2013.*

If 'governance' means governance over any aspect of the Maui transmission regime, MDL sees no possibility of shared or evolving arrangements.

3. *Governance arrangements are in place to facilitate implementation of operational changes in a timely way.*

MDL believes it already has suitable governance arrangements in place.

4. *There is sufficient information transparency for industry and wider stakeholders to be confident that they can assess the likelihood of congestion on pipeline systems (Maui and Vector).*

MDL believes it already provides sufficient transparency.

5. *There is confidence in the industry that any short term excess demand for capacity can be managed in a way that ensures that scarce capacity is allocated to the highest value uses.*

MDL will support any initiative for transparent trading of AQ priority rights, but is not aware of any urgent demand from industry to pursue this.

6. *Planning for a mechanism to enable price signals for scarcity on a longer term timeframe is in place, and will be implemented in accordance with cost benefit criteria.*

MDL believes transparent trading of AQ priority rights would achieve this. It expects to explore this as part of its CPP application. A starting point will be to review the pricing methodology for the initial release of AQ priority rights. Any resulting MPOC changes will be subject to industry consultation and GIC review.

7. *GIC is able to provide assurance to the government that any future shortage of capacity will be able to be handled in an efficient way.*

MDL already manages its capacity in an efficient way. It will implement appropriate AQ arrangements if demand for them arises. Capacity shortages on the Maui Pipeline have been forecast to be unlikely in the

	next 15 years.
MGUG	The measures largely describe short term process steps being achieved. MGUG would also suggest that more specific outcomes as defined by the project team be included.
MRP	Yes (noting MRP does not agree with the PEA's road map for success), but it is unrealistic to expect governance change requests by November this year. The end of the year or possibly February next year is more realistic.
Vector	Yes, except the date for change requests to implement governance is likely to be too optimistic (depending on the implementation plan that Vector and MDL are drafting). Vector suggests replacing 'by November 2013' with 'in a timely manner'.
Q13	<i>Do you agree with the PEA's recommendation to Gas Industry Co? (see PEA's Second Advice paper, Chapter 8, Recommendations)</i>
Contact	Can't tell without cost benefit analysis.
Genesis	A better understanding of the interruptible market, more information transparency, and common governance is required before the PEA's recommended principles are adopted.
Greymouth	The GIC passing the ball back to the industry is the best course of action available at the moment. However it shows that despite helping to facilitate industry thinking, GIC has not delivered any meaningful change relating to transmission access and pricing in the last 3-4 years and deliverable targets keep inching forwards.
MDL	MDL mostly agrees with the PEA's recommendation that GIC accept the Guiding Principles, except for principles relating to common governance. MDL does not agree with the PEA's other recommendations to the extent that they could apply to MDL.
MGUG	Recommendations appear to be reasonable but are not sufficient. Gas Act objectives and well-functioning market characteristics should override the guiding principles. A project governance structure and project management approach should continue to the next phase of work and a professional project manager should be engaged. The project should also allow for other stakeholders, including consumers and regulators, to be involved. Leaving the TSOs and Shippers holding the pen raises conflicts of interest issues. The addition of a regulatory investment test as a regulatory option should be considered by the GIC as part of the GTIP.
MRP	No.
Vector	Yes.
Q14	<i>Several boxes with dashed borders appear throughout the PEA's Second Advice paper. These boxes contain material that has been discussed by the PEA but not sufficiently closely examined to draw firm conclusions. Do you have any comments on this material? (see PEA's Second Advice paper: s6.1.6 box titled 'Possible initial components of a development path'; s6.2.2 box titled 'Rotowaro model'; s6.2.3 box titled 'Possible initial components of a development path'; s6.3.4 box titled 'Possible initial components of a development path'; s6.4.2 box title 'Possible initial components of a development path')</i>

Contact	<p>s6.1.6 – Contact is not convinced that developing AQ is warranted without a cost benefit analysis.</p> <p>s6.2.2 – The model would bring uncertainty for shippers. While it states that this provides shippers an incentive to release capacity via nominations the shipper will not know the outcome of all nominations until after the event. Why use a gas price rather than a posted capacity price plus a premium?</p> <p>s6.2.3 – Fixed term contracts are likely to be for very large customers. There needs to be more analysis on the outcomes should those large loads decide it is no longer economic to use gas if as a result of auctioning.</p> <p>s6.3.4 – Further information on the level of transparency is required.</p> <p>s6.4.2 – Contact is concerned about the level of resources, cost, and need for converging the codes. It considers a cost benefit analysis is required.</p>
Genesis	As for Q13.
Greymouth	-
MDL	<p>MDL did not review thoroughly but notes:</p> <p>s6.1.6 – MDL agrees it is desirable to have services on the Maui and Vector systems that are compatible with each other, but is concerned that ‘harmonisation’ could be interpreted in a way that may be outside the scope of the GTIP and exceed what is necessary.</p> <p>MDL generally agree with the components covered by the bullet points in the box, noting that MDL expects that:</p> <p>‘firm’ priority rights on the Maui Pipeline will be based on AQ provisions in the MPOC. This allows for capacity allocations by zone. MDL has no intention of adopting a long-term point-to-point capacity system; and</p> <p>historical usage in the preceding 12 months could remain a practical and convenient allocation mechanism for on-the-day curtailments. Because it changes over time, MDL does not consider it a static ‘grandfathering’ arrangement.</p> <p>s6.2.2 – MDL does not believe the ‘Rotowaro model’ would be suitable on the Maui Pipeline.</p> <p>s6.2.3 – The proposed arrangements are unnecessarily complex for the Maui Pipeline.</p> <p>s6.3.4 – MDL generally agrees with the content in this box, except for suggestions to establish separate pipeline charges for providing information. Given the overall revenue cap under Part 4 of the Commerce Act, it sees little benefit in breaking out its pipeline charges to such a fine degree.</p> <p>s6.4.2 – MDL will use the change provisions in the MPOC to make any changes to the Maui operating regime and not develop a separate rule development process for changes affecting its allocation priority rights and pricing.</p>
MGUG	<p>s6.1.6 – provides a development path and indicated deliverables. Further detail could include:</p> <p>Capacity Products –</p>

	<ul style="list-style-type: none"> o well defined firm and non-firm services; o the percentage split between them; o more flexibility over time periods e.g. the start date for the gas year and provision for seasonal variation within years; <p>transparent disclosure of nominations, receipts and deliveries or flows, capacity reservations and contracts; and.</p> <p>the option for users to hold the right to capacity:</p> <ul style="list-style-type: none"> o it should be possible, as an optional extra service, for users to hold the assignment right to contracted capacity; o this would enable users to implement their own 'capacity follows user' scheme should they wish to; and o this could attract an extra payment to reflect the prospect of shippers losing some portfolio diversity. Nevertheless, some users may want such a service and be willing to pay for it. <p>MGUG also notes:</p> <ul style="list-style-type: none"> • the discussion centres on firm vs. non-firm capacity as if these are the two alternative products. Vector is considering different classes of non-firm capacity with different commercial priorities. This seems to introduce unnecessary complexity to system changes that users haven't requested; • if transparency on the Maui system is a benchmark it may still fall short of what transparency is available in other jurisdictions, such as the US. Secondly Maui transparency is not something that appears to be widely available so falls well short of how the PEA describes an ideal transparency standard (s4.3); and • for transition issues MGUG thinks it is more appropriate to recast this more generally as 'agreements giving rise to property rights would be phased out or bought out'. <p>s6.2.2 – the Rotowaro model is confusing because it is combines entitlement to gas with capacity and it is not clear to MGUG how this is intended to work (or indeed what it would mean for different market participants)</p>
MRP	No.
Vector	This material will prove useful to Vector, MDL and the industry advisory group as a discussion of options, when those parties consider the issues.