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**Advisory Group calls for Maui/Vector Transmission Capacity Access Convergence**

Experts advising the gas industry co-regulator, Gas Industry Co, on gas transmission access and capacity pricing arrangements have proposed an 'evolutionary convergence' approach that builds on commonalities between the Maui and Vector transmission access regimes.

In its second advisory report to Gas Industry Co released today, the Panel of Expert Advisers (PEA) considers that services currently available on the two pipeline systems can be progressively evolved and harmonised to allow shippers to seek a mix of capacity access rights that best match their needs. It notes that, in most cases, shippers need to use both systems to get gas to consumers.

The PEA says that, while the essentially common carriage arrangements on the Maui pipeline appear to be significantly different to the contract carriage arrangements on Vector pipelines, below the surface there are numerous areas of commonality in how they operate in practice. The PEA believes that establishing better common arrangements between these separately owned pipeline systems over time will significantly foster the characteristics of an ideal gas transmission market in the New Zealand industry context. Its advisory report includes proposed guiding principles to facilitate this evolution.

In establishing evolutionary convergence as the preferred approach, the PEA rejects a number of other options it believes will not achieve the ideal characteristics criteria. Further, it does not favour a fully-integrated transmission/wholesale gas regime of the type adopted in Victoria, Australia, on the grounds of complexity and expense.

Elements of the PEA's initial advice in July 2012 have been retained in the current report. It urges a system of daily nominations, proposes that scarce capacity is allocated through a price-based auction process to users who value it most highly in order to establish clear price signals, advocates the phasing-out of 'in perpetuity' grandfathering of capacity, and calls for improved transparency in transmission capacity availability, allocation and pricing.

It suggests the improvement process should commence immediately, and invites Maui Pipeline Operating Code (MPOC) and Vector Transmission Code (VTC) signatories to make the necessary code changes so they can adopt and operationalise the guiding principles.

In association with the release of the PEA's advice, Gas Industry Co has provided an [update report](#) on the industry's broader Gas Transmission Investment Programme (GTIP), and its view on how it can be progressed in light of the PEA's recommendations. This report describes the PEA's latest advice - [Advice from Panel of Expert Advisers: Report to Gas Industry Company, July 2013](#) - as a significant milestone for the transmission access and capacity pricing work which is the main project within GTIP. Subject to submitter views, Gas Industry Co's preliminary view is that it endorses the guiding principles set out in the PEA's report. Submissions on both reports close on 30 August 2013.

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### **Background Information**

The Gas Transmission Investment Programme (GTIP) is an industry initiative established in 2011 to address transmission capacity issues in the wake of a 2009 announcement by Vector Limited that capacity on its North Pipeline supplying Auckland and Northland, was constrained and that it was unable to sell any more reserved capacity. Short term issues relating to the perceived impact of this constraint on competition in the region are being addressed through seven 'Bridge Commitments' adopted in 2011 by Vector and the majority of shippers on the North Pipeline.

The GTIP is considering the longer-term capacity issues. It comprises a series of projects administrated by Gas Industry Co with the assistance and oversight of industry participants, with objectives of ensuring existing and future gas transmission assets are used efficiently, establishing the need for gas transmission investment, and developing an effective pathway for efficient transmission investment to take place.

The nine-member PEA, comprising representatives of industry participants and major users, and led by an independent chairperson, was established in 2012 to provide advice to Gas Industry Co on transmission capacity access and pricing issues, the central GTIP project. It aims to ensure that transmission pipeline access arrangements are dynamically efficient.

In its initial advice in July last year, the PEA presented a strawman proposal that included the introduction of capacity auctioning when capacity demand exceeds supply, a nominations regime, a dilution of existing 'grandfathered' rights to capacity, and improved transparency.

Following industry feedback, which urged a more revolutionary approach, and concerns with the PEA's problem definition, the PEA redefined the issues following an assessment of current arrangements against a set of characteristics of an ideal gas transmission market, extended its assessment to include the Maui as well as the Vector transmission systems, and looked afresh at a range of options.

The PEA meets at least monthly, and its latest advice to Gas Industry Co was finalised following an industry stakeholder workshop in April.