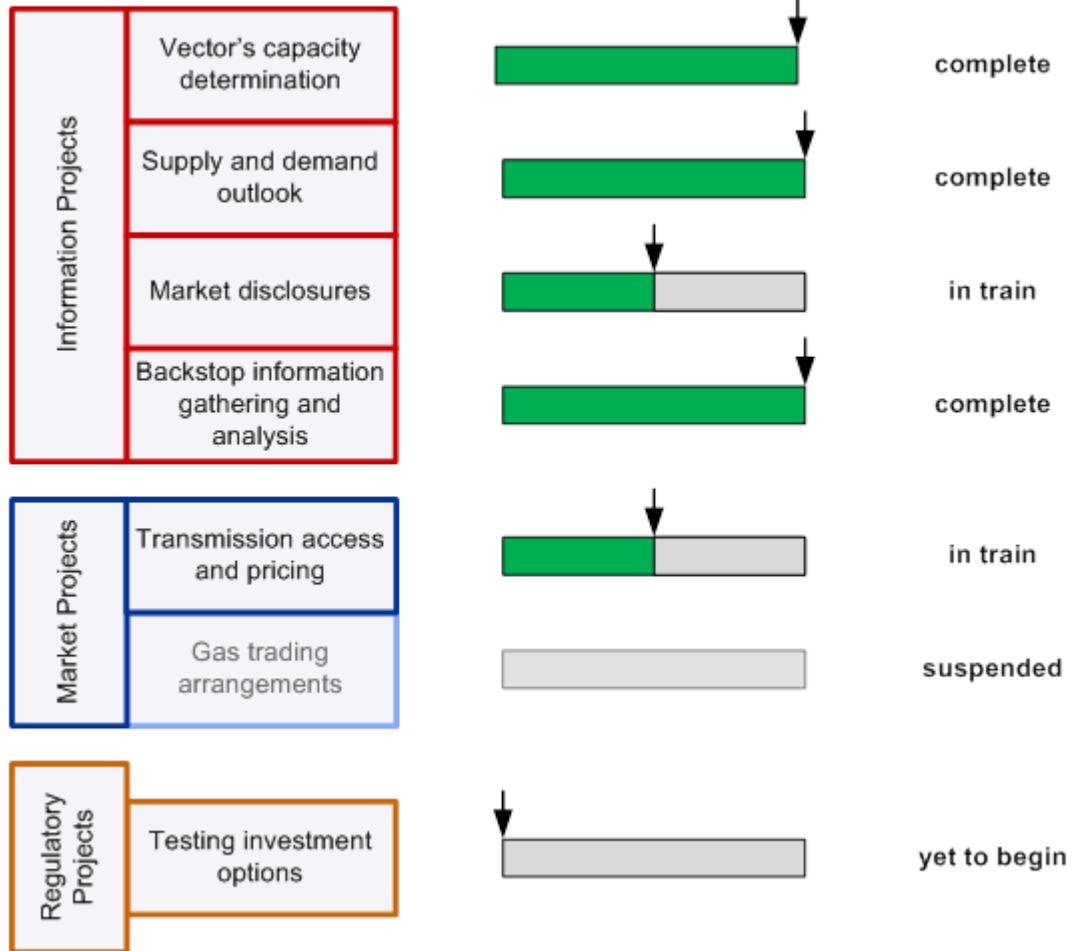




Gas Transmission Investment Programme (GTIP) Status and Development

12 August 2013

Status of GTIP Projects



Q1

- **Do you agree with our assessment of the GTIP so far? If not, where does your assessment differ from ours?**

(see GIC's GTIP Status and Development paper, Chapter 3)

Q2

- **Are there any Projects you think should be given greater or lesser attention by GIC? Are there any other projects you think should be considered as part of GTIP?**

(see GIC's GTIP Status and Development paper, Chapter 3)

GIC's assessment of GTIP (1)

- **Vector's Capacity Determination Project**
 - **Project objective** – to transparently review North Pipeline capacity – **achieved**
 - + Vector determined capacity of all its other pipelines
 - Vector's review has:
 - systematised approach to determining physical capacity
 - established a security of supply standard
 - clarified how Vector interprets the VTC RPO obligations
 - received stakeholder input (workshops/submissions)
 - established how much firm capacity is on issue and how much remains available for sale
 - But GIC expects TSOs to continue to improve presentation of capacity information

GIC's assessment of GTIP (2)

- **Supply and Demand Outlook Project**

- **Project objective** – to improve quality of information to allow stakeholders to make better decisions about transmission investment and alternatives – **achieved**
- *Gas Supply and Demand Scenarios 2012-2027* report:
 - helped 'clear the fog'
 - report + data model a valuable, openly available, resource
 - can be refreshed to stay current

- **Transmission Market Disclosures Project**

- **Project objective** – to check that all information necessary for efficient operation of the market is available – **not yet achieved**
- Transparency improved by Vector's Capacity Determination Project and Supply and Demand Outlook Project
- And, GIC/Industry dialogue on transparency continuing
- But, final check necessary after other projects completed

GIC's assessment of GTIP (3)

- **Backstop Information Gathering Project**
 - **Project objective** – to ensure access to data for analysis to underpin any conclusions and recommendations in relation to all areas of GIC's work – **achieved**
 - GIC set out options in 2011 Statement of Proposal
 - Following consultation GIC's preferred option was to develop a protocol for requesting information from industry participants
 - In May 2013 GIC publishes *Protocol for Information Gathering and Policy Development*

GIC's assessment of GTIP (4)

- **Transmission Access and Capacity Pricing Project**

- **Project objective** – to ensure efficient arrangements for optimal allocation, utilisation, and pricing of capacity – **still to be achieved**
- PEA's July 2012 advice:
 - considered economics of pipeline access
 - discussed lessons from overseas jurisdictions
 - identified problems with current arrangements in NZ
 - proposed a straw-man for improving current arrangements
- PEA's July 2013 advice (summarised in Appendix A of GIC's paper) recommends GIC:
 - adopt the 'guiding principles'
 - invite MPOC and VTC parties to adopt and operationalise the guiding principles
 - provide feedback to parties on their proposed implementation plan and milestones
 - consider regulatory options

GIC's assessment of GTIP (5)

- **Gas Trading Arrangements Project**

- **Project objective** – to ensure efficient arrangements for gas market – **suspended**
- Following consideration of submissions on its first advice paper, PEA considered market carriage not justified at present
- GIC agrees reform of the gas trading market is not currently justified

- **Testing Investment Options Project**

- **Project objective** – to identify whether there are appropriate incentives in place for investment – **yet to begin**
- On hold pending better understanding of:
 - Part 4 economic regulation regime
 - Outcomes of Transmission Access and Capacity Pricing Project

Q3

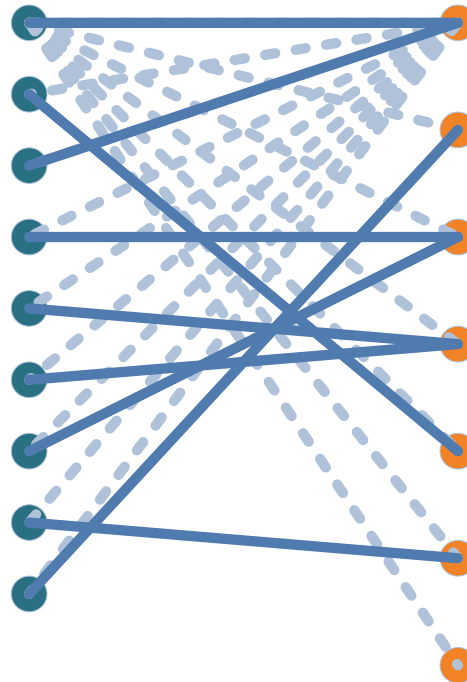
- **Do you agree that the characteristics of a well-functioning transmission market, as described by the PEA, could be used as criteria for evaluating regulatory options?**

(see GIC's GTIP Status and Development paper, Chapter 4)

Well-functioning market characteristics

Well-functioning market characteristics

1. Dynamic efficiency
2. Minimum governing and operating cost
3. Efficient use of physical assets
4. Related market competition not distorted
5. Related market investment facilitated
6. Pipeline investment facilitated
7. Independence of pipeline business
8. Operational/commercial transparency
9. Able to evolve in timely fashion



Gas Act 1992 s43ZN Objectives

ensure that gas is delivered to existing and new customers in a safe, efficient, and reliable manner (s43ZN(a))

the facilitation and promotion of the ongoing supply of gas to meet New Zealand's energy needs, by providing access to essential infrastructure and competitive market arrangements: (s43ZN(b)(i))

barriers to competition in the gas industry are minimised (s43ZN(b)(ii))

incentives for investment in gas processing facilities, transmission, and distribution are maintained or enhanced (s43ZN(b)(iii))

delivered gas costs and prices are subject to sustained downward pressure (s43ZN(b)(iv))

risks relating to security of supply, including transport arrangements, are properly and efficiently managed by all parties (s43ZN(b)(v))

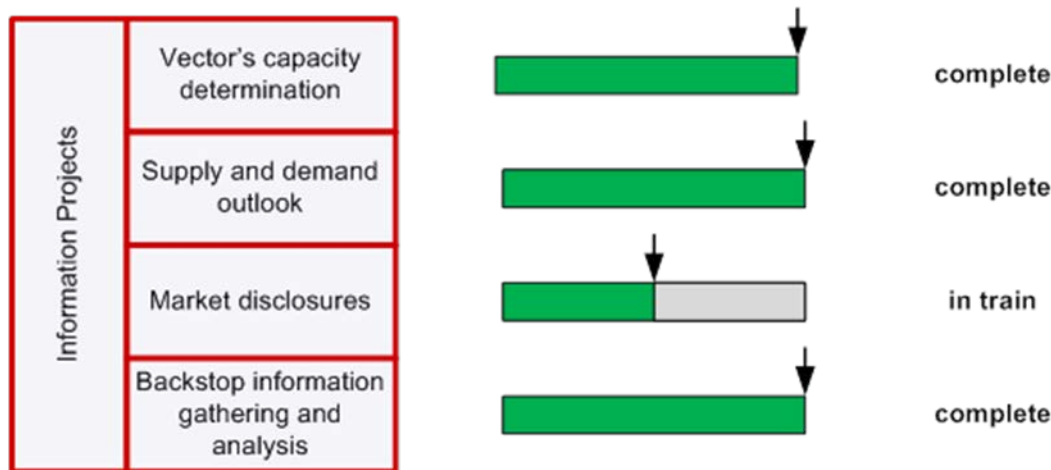
consistency with the Government's gas safety regime is maintained (s43ZN(b)(vi))

Q4

- **Do you agree with the proposed way forward for the Information Projects?**

(see GIC's GTIP Status and Development paper, Section 5.2)

Information projects – proposed way forward



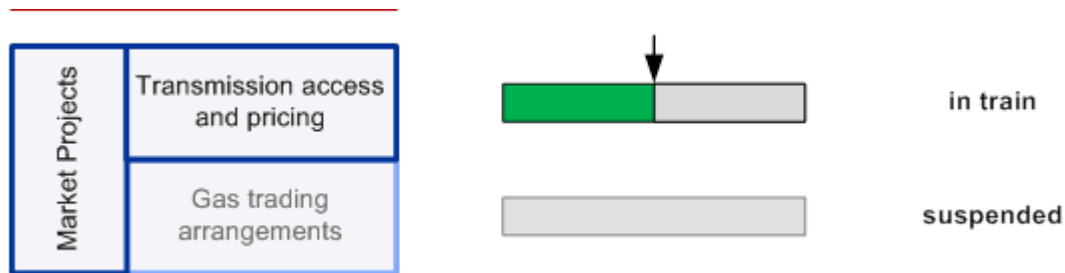
- **Information Projects complete except for the Market Disclosures Project**
- **Both TSOs are committed to efficient disclosure**
- **GIC will continue working with TSOs to improve transparency**
- **Markets Disclosures Project will provide final check that all the information necessary for efficient market is available**

Q5

- **Do you agree with the proposed way forward for the Market Projects?**

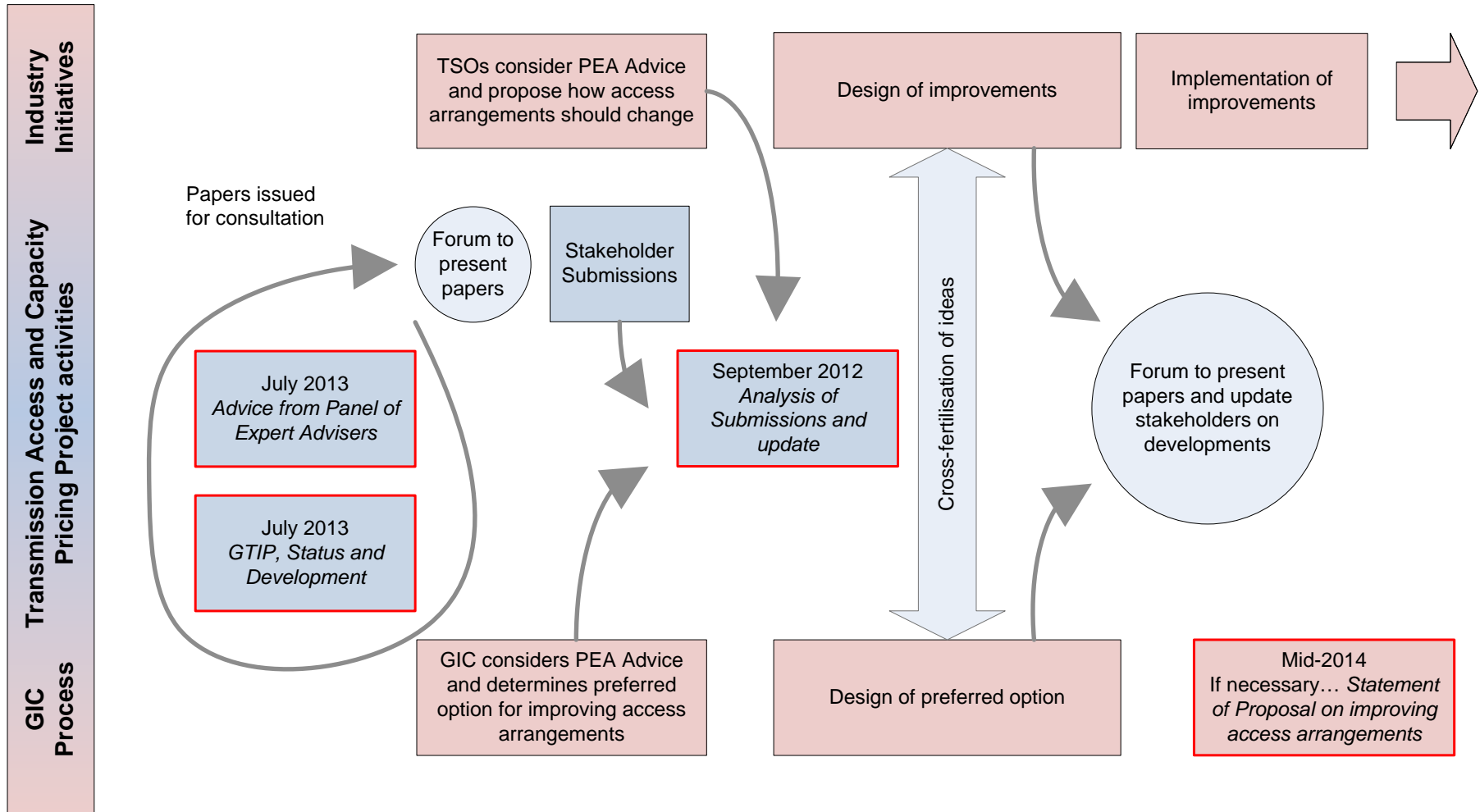
(see GIC's GTIP Status and Development paper, Section 5.3)

Market projects – proposed way forward (1)



- **GIC optimistic industry will improve transmission access and pricing arrangements along the lines proposed by PEA**
- **Current MPOC and VTC arrangements were developed through industry negotiation... industry seems willing to continue development**
- **However, change is complex and difficult, so GIC will develop its own views on how and when industry arrangements should evolve**
- **Industry initiatives and GIC's work should be complementary**

Market projects – proposed way forward (2)

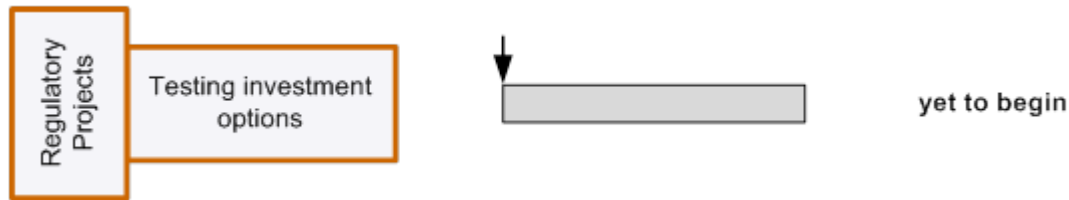


Q6

- **Do you agree with the proposed way forward for the Regulatory Projects?**

(see GIC's GTIP Status and Development paper, Section 5.4)

Regulatory projects – proposed way forward



- **Best commenced once there is:**
 - some experience of how significant investments will take place under the new Commerce Act Part 4
 - some understanding of how pipeline access arrangements will signal the need for new investment
- **Any need for a regulatory investment test?**

Next steps

- **Stakeholder submissions**
- **Assuming PEA recommendations endorsed:**
 - *Industry plan/implement convergence of codes*
 - *GIC assists in its code change role*
 - *GIC continues to develop a regulatory backstop if changes are not initiated or are not timely or effective*

Summing up where we've got to...

- **Transparency improved**
 - *Gas Supply and Demand Scenarios 2012 – 2027, February 2013* published
 - *Capacity Determination for the Vector Gas Transmission System, March 2013* published
 - *Protocol for Information Gathering and Policy Development, May 2013* published
- **Market conditions improved**
 - A repeat of Auckland constraint now manageable - renegotiation of Power Station contracts has released firm capacity
- **No new investment in short term**
 - Stakeholders now have better information about the issues
- **PEA considers 'Evolutionary Convergence' is best**
 - no need for 'big bang' solution – improvement can be achieved by evolution