

11 December 2009

Hon Pansy Wong  
Associate Minister of Energy and Resources  
Private Bag 18041  
Parliament Buildings  
Wellington 6160

Dear Minister

### **Interconnection to Open Access Transmission Pipelines**

Gas Industry Co's Strategic Plan 2010-2012 anticipates that we will advise you in December 2009 on the need for regulation on interconnection arrangements. Our advice on this matter is provided below.

### **Background**

The Gas Act provides for regulations to be made for the purpose of 'prescribing reasonable terms and conditions for access to transmission or distribution pipelines'. The means of allowing parties to physically interconnect their facilities with those of a transmission system owner is an important aspect of such 'access' arrangements. Gas Industry Co's analysis, including discussions with parties seeking interconnection, and the pipeline owners (Vector and MDL) confirmed that problems included: poorly defined interconnection processes; uncertain technical requirements; confusing roles and responsibilities; and liability/insurance issues.

### **Guidelines – a new approach**

In February 2009, Gas Industry Co issued Transmission Pipeline Interconnection Guidelines (the Guidelines). The Guidelines set out Gas Industry Co's view on the features of good interconnection practice. This was the first time Gas Industry Co had issued guidelines as a means of influencing outcomes to achieve a regulatory objective. The approach was taken because the Company considered its objectives as the industry regulator were substantially aligned with the objectives of Vector and MDL - to provide an efficient process to allow interconnection to transmission pipelines on reasonable terms and conditions.

Although the Guidelines have no legal standing, they were expected to be a useful resource for transmission system owners to guide the development of their interconnection services. They would also be of use to parties seeking interconnection as a guide to what good practice interconnection arrangements should include.

The Guidelines also propose the creation by each pipeline owner of an Interconnection Policy, which would provide transparency through such items as:

- a description of the process from application through to operation of the new interconnection station;
- the information that an Interconnecting Party must provide at each stage of the interconnection process;
- links to all relevant standard contracts; links to any policies of the pipeline owner that are relevant to a new interconnection;
- a description of any commercial prerequisites to approval of an interconnection application (for example, bonds or insurance);
- a description of the technical review principles and process used to assess an interconnection application; and
- a description of dispute resolution arrangements.

### **Review process**

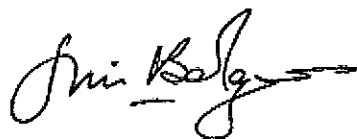
In September 2009 Gas Industry Co met with Vector and MDL to review their current interconnection arrangements, and their response to the Guidelines. Our analysis is now complete and we can report that the response to the Guidelines has been slow (due to resource constraints in the industry), but well intentioned. There is broad alignment between current processes and the Guidelines, however, both pipeline owners have acknowledged that they have further work to do on their interconnection arrangements.

We have sent Vector and MDL the results of our analysis which highlights the areas where we believe there is scope for improvement.

### **Advice**

Our advice to you on this matter is that it is premature to consider regulation, and that Vector and MDL should be allowed more time to refine their interconnection arrangements. We recommend that a further review take place in June 2010 in which we will formally assess whether the interconnection services offered by Vector and MDL meet the Gas Act and GPS objectives. If that analysis shows that the objectives have not been adequately met, will consider the options, including regulation.

Yours faithfully

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

**Rt Hon J Bolger, ONZ**

*Chair*

Copy: David Buckrell  
Bruce Parkes