



Gas Transmission Capacity Regime

Options

18 August 2010

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Introduction

- Early in 2010, Vector undertook to review its Transmission System carriage regime and to suggest options for improvement and/or change
- Since then, the GIC has commenced a review of that carriage regime and drafted a high level options paper for industry comment
- Rather than run a parallel process with the industry, Vector has agreed to share its ideas for improvement and/or change through the GIC's process
- Regime changes can be implemented via ordinary VTC processes with GIC appeal rights – working with the GIC and the industry

The Issues, from Vector's Perspective

Physical Constraint

- The North Pipeline is constrained from a physical perspective at peak times of the year
- Historical trends suggest reticulated sector growth can be accommodated until 2015, however large commercial/industrial demand growth cannot, without reinforcement

Commercial Arrangements

- The industry's transmission arrangements have been in place since the mid-1990s; incremental changes have modified their original design - they were not designed with a constrained pipeline in mind
- The arrangements contain service levels that Vector cannot breach - e.g. by issuing capacity that may not be available for use
- Customers (Shippers and existing End-users) have existing rights and expectations of service

The Issues, from Vector's Perspective (2)

Shippers and End-Users

- Shippers' and End-users' commercial interests may differ when it comes to capacity
- Some End-users are experiencing difficulties changing Shippers due to uncertainty of contractual capacity
- We see some Shippers have Reserved Capacity that they have not used to date this year, and yet have been unwilling to transfer to other Shippers when an End-user wishes to switch

Regulatory Environment

- We require demand forecasts and transparent investment planning
- Clarity over the regulatory regime is required to provide certainty of investment recovery

What does Vector want from this Process?

A vibrant competitive gas market that:

- ensures access to gas for End-users
- preserves or improves existing service levels, with few curtailments
- enables asset investment, where appropriate, to reinforce and grow the gas transmission system and networks
- allows those who invest a commercial (regulated) return
- enables investment in/by gas-based industry

Review Undertaken

- Vector's review of transmission arrangements was mindful of:
 - Shippers' concerns and criticisms (as expressed over time)
 - Vector's experience in running the regime
 - Alternative regimes
 - Its own, the GIC's and the Commerce Commission's objectives
 - The North Pipeline constraint
 - The need for practical, implementable solutions

- Forms of contract carriage and common carriage were considered, including "entry-exit" - considered inappropriate and not investigated further

Choice of Regime and/or Options for Change

- Transmission regimes generally fall under 2 broad classifications:
 - Contract Carriage; and
 - Common Carriage
- Vector's transmission regime has always been classified as "Contract Carriage"
- Key to any discussion on change is the need to be mindful of the problem or issue to be addressed, and the industry's appetite for change
- It is also necessary to bear in mind the consequential effects of choosing one regime or option over another, for example changes to the Transmission Pricing Methodology

Choice of Regime

- The sub-options to be discussed here can be classified as either Contract Carriage or Common Carriage – the distinction is blurry
- Except for the *form of 1.1*, they are essentially those in Vector's submission to the GIC
- In terms of change to current arrangements, they range from minimal through to substantial
- Some alternatives are mutually exclusive, others could be combined
- There are no doubt other possible options or permutations
- Neither Contract Carriage nor Common Carriage would be inherently superior in relation to facilitating investment: the Regulatory environment is more significant

1.1: (Large) End-user Capacity

Aim: To facilitate competition by providing capacity linked to the End-user

- Vector would have a Supplementary Agreement with the Shipper
- Vector determines the Supplementary Capacity required - only used to supply the End-user
- Supplementary Capacity not transferrable; no grandfathering right
- Supplementary Agreement term = GSA term
- Shipper could use Reserved Capacity if it preferred
- Still increases the transmission capacity on issue; other measures still needed to address that

1.2: (Residential) End-user Capacity

Aim: To simplify Shippers' capacity management and enhance retail competition in the small End-user sector

- Separate the capacity required to service residential End-users
- Define "average" capacity/End-user: Shipper's capacity usage = number of End-users × average capacity/End-user
- No overrun charges payable
- Automatic capacity transfer on switching; capacity not interchangeable with other capacity
- Use Registry as database of record for Shippers' End-user numbers and switches

1.3: Short-term Reserved Capacity

Aim: To give Shippers choice in managing their capacity, improve pricing efficiency and capacity utilisation

- Shippers could buy Reserved Capacity from a month to a year ahead
- Price of capacity would vary according to demand
- To mitigate price volatility there could also be an advance capacity reservation fee
- No capacity grandfathering – all Shippers on same footing
- No capacity transfers (except trades at the same Receipt Point-Delivery Point)
- *On a constrained pipeline could simply default to status quo*

1.4: Annual Re-set of Reserved Capacity

Aim: To facilitate retail competition by re-allocating capacity from to Shippers who use it

- Retain annual capacity booking; Vector tracks Shippers' capacity usage
- Vector may sell additional Reserved Capacity during a year for Shippers switching existing End-users
- Vector may reduce a Shipper's capacity for the following year ("use it or lose it") to cover new capacity issued during the year
- Shippers must notify Vector before supplying major new load
- No capacity grandfathering – all Shippers on same footing
- No capacity transfers (except trades at the same RP-DP)

2.1: Peak Demand Capacity

Aim: To encourage efficient use of capacity and pricing

- No advance bookings of or entitlements to capacity; Shippers would pay only for the capacity they used (determined in arrears)
- A Shipper's *capacity* charges would be based on its share of peak demand (e.g. on peak day)
- Capacity charges could relate to a Delivery Point, a zone (multiple DPs) or a whole pipeline
- No transfer or trading of capacity; no overrun charges

2.2: Nominations-Based Capacity

Aim: To encourage efficient use of capacity and pricing

- Shippers would nominate to obtain capacity in advance
- A Shipper's *capacity* charge would be based on its *nominated* contribution to peak demand (e.g. on peak day)
- Capacity charges could relate to a DP, a zone or a whole pipeline
- *Strong* incentive fees needed to discourage both under and over-nomination
- Robust nominations could improve operational efficiency

Conclusion

- Vector wants a vibrant gas market enabled by an efficient gas transmission system
- The constraint in the North Pipeline requires a short term regime solution and a long term investment solution
- Existing customers (Shippers and End-users) have contractual rights and service expectations and the industry needs to agree the most pragmatic way forward