



Vector Transmission Capacity Workshop

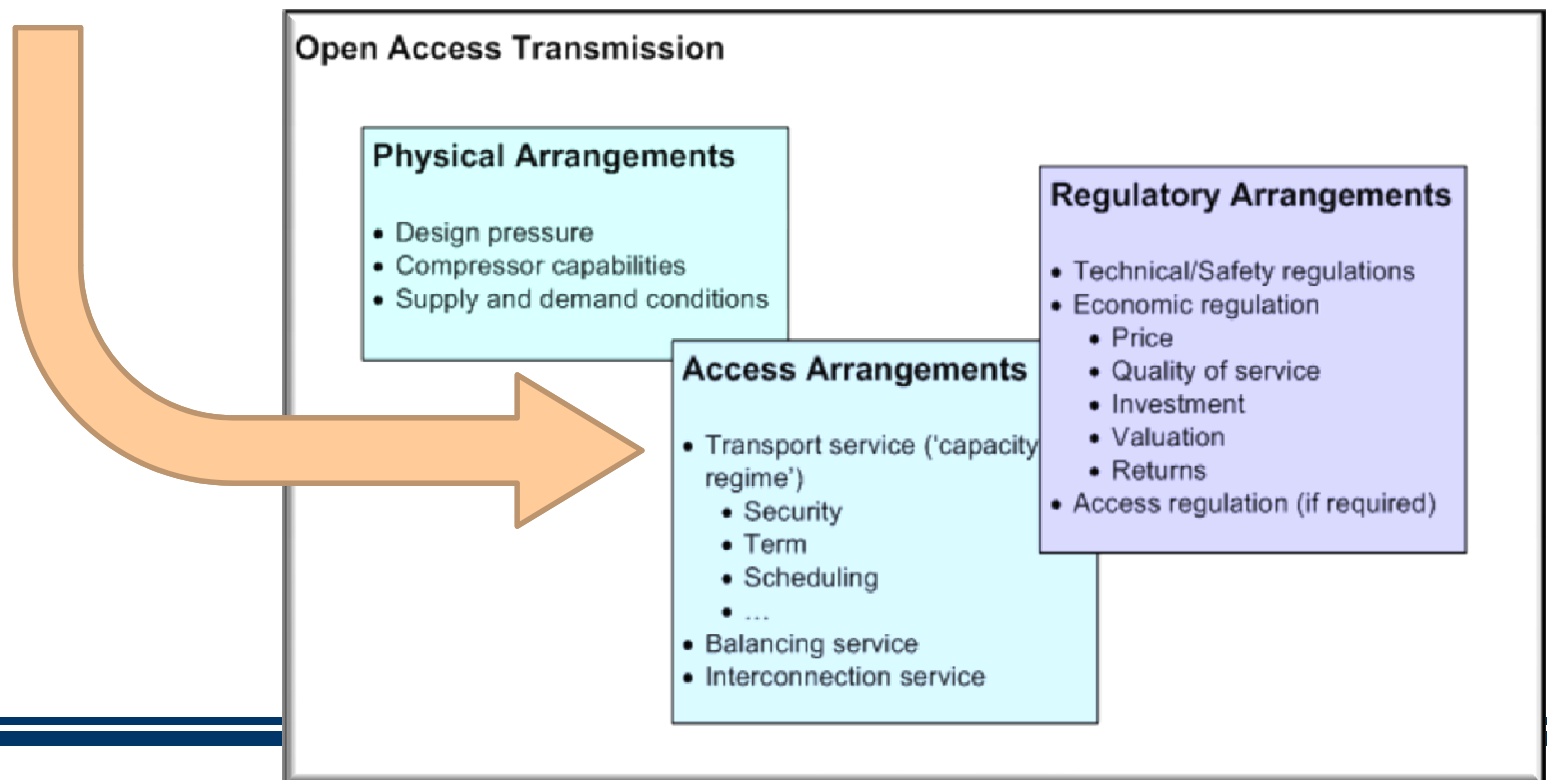
18 August 2010

Agenda

Topic	Presented by:
1. Overview and objective	Gas Industry Co
2. Analysis of submissions on options paper	Gas Industry Co (Creative Energy)
3. Vector's 'sub-options'	Vector
4. Short-term issues	Gas Industry Co
5. Short-term options	Gas Industry Co (Creative Energy)
6. Discussion and feedback	Gas Industry Co

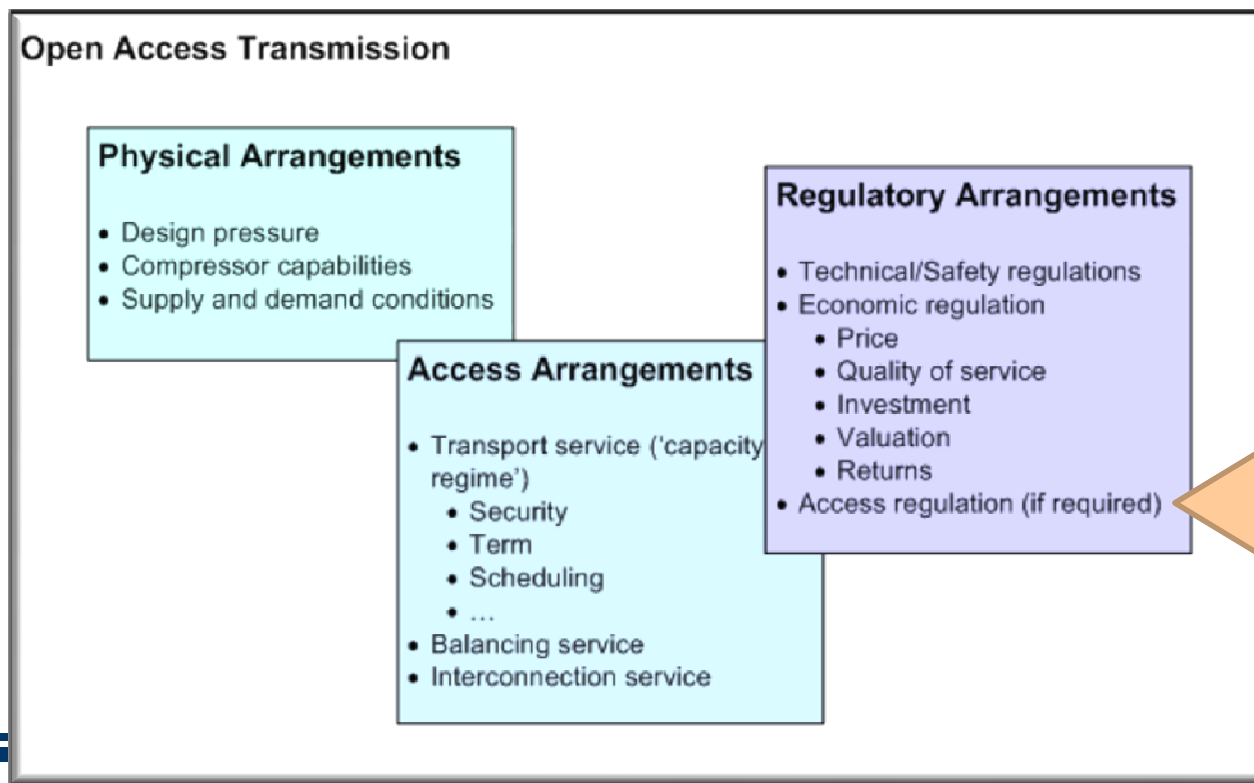
1. Overview and objective

May 2010 *Options for Vector Transmission Capacity* paper considers Vector's options for changing its 'transport service' or 'capacity regime'



1. Overview and objective

Gas Industry Co is also considering whether improvements are likely through existing contractual arrangements, or whether regulation may be required



1. Overview and objective

- **The objective of today's workshop is:**
 - Medium-term arrangements:
 - review submissions on *Options for Vector Transmission Capacity* paper, and draw some initial conclusions
 - consider Vector's 'sub-options'
 - Short-term arrangements:
 - describe problem
 - set out possible solutions
 - Process from here

4. Short-term issues

- **The problem is that, when capacity is constrained:**
 - Large end users are unable to obtain competitive bids from retailers
 - The existing retailer has sufficient transmission capacity to supply such an end user, but other retailers cannot obtain the 'additional' capacity they need
 - Vector will not issue 'additional' capacity because it cannot be confident that, if the existing retailer loses the business, that retailer will relinquish the associated capacity (and, under the VTC, the retailer has 'grandfathering' rights to renew the same level of capacity from one year to the next)
 - Competition among gas producers may also be restricted

4. Short-term issues

- **The problem (continued):**

- Short-term issues may extend into the medium-term. In particular because of uncertainty about:
 - whether new investment is justified, since it depends on:
 - uncertain supply and demand forecasts
 - what reliability standard Vector is operating to
 - whether the arrangements between Vector and the Commerce Commission provide conditions for investment
 - whether Vector will invest

4. Short-term issues

- **The problem conflicts with Gas Industry Co's objectives:**

- Gas Act requires:
 - barriers to competition in the gas industry are minimised
 - delivered gas costs and prices are subject to sustained downward pressure
- April 2008 GPS on Gas Governance requires:
 - competition is facilitated in... downstream gas markets by minimising barriers to access the essential infrastructure to the long-term benefit of end-users
 - gas industry participants and new entrants ...able to access... transmission pipelines... on reasonable terms and conditions

4. Short-term issues

- **Parties to the VTC can change the VTC to remedy the competition problem. By doing so they would:**
 - ensure that industry codes promote competition
 - demonstrate that self-regulation is viable, by promoting a solution before regulatory intervention occurs
- **However, the short-term 'fixes' Vector has described have not been actively pursued (ie no party has proposed a VTC change request to resolve the issue)**

4. Short-term issues

- **Gas Industry Co must assess whether intervention is justified**
- **On preliminary consideration... no detriment to business confidence if 'grandfathering' is adjusted:**
 - the VTC provides the commercial terms for use of a common good asset... the parties are aware that these arrangements should permit competition in related markets and be competitively neutral between users
 - arrangements for the use of a monopoly asset that create market power (for the owner or users) are unlikely to be enduring
 - the VTC can expire on 30 September 2010, so parties have recognised there may be a need to adapt to changing circumstances

6. Questions for participants

1. Do you consider that:
 - (a) industry codes need to promote competition?
 - (b) existing Vector access arrangements are affecting competition in
(i) the retail gas market, and (ii) the wholesale gas market?
 - (c) the annual review of the VTC should allow for changes to be made if existing arrangements are affecting competition?
2. Do you consider that:
 - (a) an urgent change to the VTC is required to improve competition?
 - (b) it is preferable to change the code through the existing code change provisions or through regulation?
 - (c) there are risks to your organisation if an urgent change is implemented? If so, please specify.

6. Questions for participants

3. Do you consider that there are options to improve competition in the short-term that were not canvassed at the 18 August 2010 workshop? If so, please specify.

4. Are there any other factors relevant to the short term issues that you believe GIC should consider? If so, please specify.