Note to accompany Final Recommendation on the 27 November 2012 VTC Change Request Appeal

In Gas Industry Co's capacity as the body responsible for considering Vector Transmission Code (VTC) Change Request appeals, we have today issued the Final Recommendation on the 27 November 2012 VTC Change Request supporting the proposed change.

Code changes to introduce back-to-back balancing can now proceed

On 8 September 2010, Gas Industry Co wrote to the Associate Minister of Energy and Resources noting the Ministry's wish to give the industry more time[1] to improve balancing arrangements before considering regulation.

In April 2012, Gas Industry Co issued a Final Recommendation on MDL's 13 October 2011 MPOC Change Request aimed at introducing back-to-back balancing arrangements. However, at our request, MDL agreed to delay implementing that MPOC change to allow time for industry participants to negotiate and implement other improvements. One improvement was the complementary changes to the VTC proposed by Vector in the 30 October 2012 VTC Change Request, which is the subject of the current 27 November 2012 appeal.

Now that the VTC Change Request appeal is settled, the MPOC change can proceed and we expect that both Vector and MDL will take the necessary steps to implement those changes. We will then report back to the Minister that some improvements to balancing arrangements have been made.

Some outstanding issues

Vector's proposed change comprises three parts. Two parts accommodate the introduction of a balancing gas allocation mechanism and a peaking charge to the MPOC. These aspects of the change are generally supported by shippers. The third part is to limit the ability for Shippers to dispute balancing invoices Vector issues, and shipper submissions on this aspect of the proposed change unanimously oppose it.

Gas Industry Co acknowledges the unanimous opposition of shipper submissions to the third part of the Vector Change Request, and the strength of shipper concern about the diminution of their right to dispute balancing invoices. Nevertheless, our assessment is that in practice the reduction of dispute rights would be very limited, and outweighed by the overall benefit that introducing back-to-back balancing will bring. Since our appeals body role requires us to reach an overall conclusion, Gas Industry Co's Final Recommendation is to support the proposed change.

This appeal raises issues that are beyond the scope of our VTC appeals body role but within our broader role as 'industry body' under the Gas Act. We address these issues below.

[1] Balancing had been under investigation since the MPOC was introduced in 2005.

Changes that require co-ordinated modifications to both the MPOC and VTC

The current VTC Change Request was triggered by a proposed change to the MPOC to introduce back-to-back balancing. That MPOC Change Request was first submitted to Gas Industry Co for consideration in October 2011, following many months of discussion among parties to the MPOC. While some aspects of these changes are complex, we need to ask whether there could be a more streamlined way of dealing with future changes that could deliver more timely outcomes while still allowing for 'due process'.

As a minimum, we propose that the code change processes in the MPOC and VTC should be the same. The processes are already broadly similar, but have some significant differences. For example all MPOC changes come to GIC for consideration, but only appeals on VTC changes are referred to us.

The development of common code governance arrangements is being considered by industry participants as one element of the industry's response to the July 2013 advice from the Panel of Expert Advisers on possible improvement to transmission access arrangements. Gas Industry Co will closely follow and report on that work.

Bundling of 'good' and 'bad' changes

A significant cause of the delay to the proposed changes to the VTC in this case has been Vector's choice to bundle two relatively un-contentious changes, with one highly contentious change. Shippers consider this bundling to be inappropriate as the changes may not relate to the same 'issue'. Contact Energy Limited submitted a VTC Change Request on 6 May 2013 requiring that future Change Requests deal with only one issue, or related series of issues. Vector withheld consent to that Change Request and it was appealed to Gas Industry Co. A Draft Recommendation concluding that Vector did reasonably withhold its consent was issued on 31 May 2013 and Gas Industry Co is currently evaluating submissions on that Draft Recommendation.

In relation to balancing, there are two potential paths forward for any party unhappy with the reduced scope for disputing balancing invoices. One is for Code governance to be addressed as part of the response to the Panel of Expert Advisers' advice on transmission access (one of the Gas Transmission Investment Programme (GTIP) projects). Another is for a Shipper to propose a further VTC change.

Overall costs of balancing

The submission on the Draft Recommendation from New Zealand Steel Limited (NZ Steel) agreed with the general intent of the proposed change, but gave an example of how the limited number of MPOC re-nomination cycles, combined with back-to-back balancing, could significantly affect their operations through no fault of their own. NZ Steel suggests that, if the Change Request is supported, Gas Industry Co should review compliance costs at a later date. We agree that a review of compliance, including the costs of compliance, is desirable and will seek to do this at an appropriate time.

3 September 2013