



Draft Principles for Arrangements on Gas Distribution Systems: Analysis of submissions

October 2011





About Gas Industry Co.

Gas Industry Co is the gas industry body under the Gas Act.

Its role is to:

- recommend arrangements, including regulations where appropriate, which improve:
 - the operation of gas markets;
 - access to infrastructure; and
 - consumer outcomes;
- develop these arrangements with the principal objective to ensure that gas is delivered to existing and new customers in a safe, efficient, reliable, fair, and environmentally sustainable manner; and
- oversee compliance with, and review such arrangements.

Gas Industry Co is required to have regard to the Government's policy objectives for the gas sector, and to report on the achievement of those objectives and on the state of the New Zealand gas industry.

Gas Industry Co's corporate strategy is to 'optimise the contribution of gas to New Zealand'.

Contents

1	Introduction	1
1.1	Purpose of this paper	1
1.2	The Distribution Issues Paper	1
1.3	Submissions on the Distribution Issues Paper	3
1.4	Advice to the Minister of Energy and Resources	3
1.5	The Draft Principles	3
1.6	Related retail work	3
<hr/>		
2	Submissions received	5
2.1	Submissions	5
2.2	Responding to submissions	5
<hr/>		
3	Submission themes	6
3.1	Application of principles	6
3.2	Retailer access	7
3.3	Referencing the NZS 5442	7
3.4	Consultation on changes to pricing	7
3.5	Service interruptions	8
3.6	Critical contingencies	8
3.7	Timing of assessment	8
<hr/>		
4	Updated Principles	9
4.1	Overview	9
4.2	Definitions	9
4.3	General principles	10

4.4	Obligations and rights of the parties	11
4.5	Distribution services provided	12
4.6	Pricing including pricing changes	12
4.7	Commencement and cessation of line charges	13
4.8	Disconnection and reconnection	13
4.9	Information exchange and use	14
4.10	Service interruptions	14
4.11	Managing critical contingencies	15
4.12	Publication of the standard distribution agreement	16
<hr/>		
5	Next steps	18
5.1	Minster endorsement	18
5.2	Assessment	18
<hr/>		
Appendix A	Revised Principles	20

1

Introduction

1.1 Purpose of this paper

In June 2011, Gas Industry Company Limited (Gas Industry Co) issued a consultation paper: *Draft Principles for Arrangements on Distribution Systems*.

This paper provides an analysis of submissions received on that paper.

1.2 The Distribution Issues Paper

Approach to analysis

In September 2010, Gas Industry Co released the *Gas Governance Issues in Gas Distribution: Issues Paper* (Distribution Issues Paper). In that paper we assessed whether there are any issues with the distribution of natural gas that warrant the development of gas governance arrangements.

The approach was to:

- propose a regulatory objective based on the policy context provided by the Gas Act and the GPS;
- analyse the characteristics of natural gas distribution in New Zealand; and
- assess natural gas distribution characteristics against the proposed regulatory objective, discuss potential issues, and consider what an appropriate response might be.

The analysis adopted a framework that took account of the Gas Act 1992 requirements for making regulations. It also considered the Commerce Commission's work in this space under the Commerce Act 1986.

Issues with Retailer-Distributor arrangements

The Distribution Issues Paper considered the arrangements¹ between a retailer and distributor. We noted that industry discussions indicated some concerns with the current arrangements. One such concern was that distributors have been slow to update these contracts, so many arrangements are well out-of-date or have expired. We considered that these out of date contracts mattered because:

¹ When we refer to 'distribution arrangements', we mean all documents relevant to the relationship, such as the formal distribution services contract and any policy or informational documents referred to by that contract.

- failure to re-negotiate replacement network services agreements on expiry implies unresolved issues between distributors and retailers, rather than poor contract management (if each party was satisfied with the contractual terms, the final agreements would by now have been executed);
- retailers consider out-of-date agreements present significant risks to them with liability and cost implications; and
- out-of-date provisions might not properly reflect changes in the regulatory environment.

This lack of contractual certainty means that distributors and retailers may not always act congruently on particular issues. Other concerns with arrangements include:

- a need for parties to consider the way in which end users benefit from the agreements between retailers and distributors (through the delivery of gas), despite not being party to those;
- a lack of alignment between retail contracts and network service agreements can create risks for end users that they cannot mitigate because they have no formal relationship with distributors; and
- industry participants are concerned at a lack of certainty or commitment to the renewal of these contracts.

We considered it possible that distributors are waiting for a good opportunity to update these agreements, such as the introduction of the Commerce Commission's price-quality regime.

Suggestion to pursue principles

Gas Industry Co concluded there are no issues that warrant recommending regulatory intervention at this stage. However, we considered the current arrangements could be improved. We suggested two approaches:

- regular status reporting on the progress distributors were making on updating their distribution contracts; and
- the development of high-level benchmarks (principles) for distribution contracts.

In relation to the development of principles, we noted that the principles would be designed to enhance the watching brief by providing a measure against which any improvements in arrangements could be assessed. We also suggested that either the industry could decide whether it wanted to adopt the benchmarks, or Gas Industry Co could monitor the degree to which they are adopted in a way similar to the Retail Gas Contract Benchmarks (see below). However, we noted that the latter approach would depend on the distributors agreeing to provide copies of distribution contracts for monitoring purposes.

The experience in the electricity sector suggests that going beyond principles/benchmarks to a model contract would be difficult and expensive.

1.3 Submissions on the Distribution Issues Paper

Gas Industry Co received eight submissions on the Distribution Issues Paper. After considering submissions, we concluded that improvements could be made to existing distribution arrangements. Also we confirmed our view that currently there is no strong case for introducing regulation.

The majority of submitters supported the development of voluntary high-level distribution contract benchmarks. Gas Industry Co agreed it would be sensible to pursue this work.

1.4 Advice to the Minister of Energy and Resources

Gas Industry Co provided the Minister of Energy and Resources an update on this work in December 2010. The advice outlined our conclusion (following consultation) that improvements could be made to the distribution arrangements, but that regulation is not required at this time. We described our intention to work with industry participants to develop a set of distribution principles. We also noted that we would monitor and report on distributors' progress on updating their Network Services Agreements. We considered this could take place on a yearly basis.

1.5 The Draft Principles

Earlier this year, Gas Industry Co issued a consultation paper: *Draft Principles for Arrangements on Distribution Systems*. The paper:

- described the background to the distribution review that led to the development of the Draft Principles;
- set out the policy context under which Gas Industry Co operates and how it relates to this work;
- presented the Draft Principles and an explanation of each; and
- proposed next steps for developing the Draft Principles.

Industry submissions were invited on the paper.

1.6 Related retail work

Retail Gas Contracts Benchmark Oversight Scheme

In March 2010 Gas Industry Co recommended the introduction of Retail Gas Contract Benchmark oversight scheme (Retail Benchmarks)². The Associate Minister of Energy and Resources endorsed the scheme in May 2010. The recommended scheme comprised:

- selective, outcome-based benchmark terms that were developed based on industry best practice and in consultation with industry participants;

² <http://www.gasindustry.co.nz/work-programme/retail-contracts?tab=1768>

- an oversight arrangement to monitor gas supply arrangements based substantially on published terms and conditions for residential consumers, and all appropriate legacy arrangements (not agreements based on significantly negotiated terms); and
- a June 2010 baseline assessment of current gas supply arrangements by an Independent Assessor, with a further transitional assessment being conducted a year later. Annual assessments will continue from 2012.

2 Submissions received

2.1 Submissions

Gas Industry Co received submissions from the following parties:

- Contact Energy Limited
- GasNet Limited
- Genesis Power Limited (trading as Genesis Energy)
- Mighty River Power Limited
- Powerco Limited
- Vector Limited

2.2 Responding to submissions

Many submitters raised similar issues with the Principles. These are grouped into themes and discussed in section 3. The amended Draft Principles are found in section 4 and the changes are highlighted. The Draft Principles with the changes are attached in Appendix A.

3

Submission themes

3.1 Application of principles

Metering services

Several submitters indicated that it is common in electricity and gas industries to have separate contracts for distribution services and metering services. These submitters believe the Principles should focus only on distribution network services and not include metering or ancillary services.

Gas Industry Co notes this point and considers that anything beyond distribution network services that the retailer and distributor want to include in the contract is up to those parties to determine. Accordingly, we have amended the definition of 'Distribution Services' to exclude the reference to 'metering'.

LPG

Genesis has suggested Gas Industry Co consider including a definition of LPG. They submit that it may be beneficial to extend these principles to the LPG sector in the future if similar issues in relation to contracts were to arise.

We note that the Draft Principles have been designed to apply to open access distribution systems and is not aware of any open access LPG networks at this time. Gas Industry Co notes the view that similar issues may arise in this area for LPG in the future. At this time, however, Gas Industry Co has no current concerns with the LPG market and will maintain a watching brief.

Bypass networks

Some submitters questioned whether the Draft Principles apply to Private or Bypass Distribution networks.

As set out in the Ruling Panel's decision of 18 May 2010, the owner of a bypass network is not a gas distributor as defined at section 2(1) of the Gas Act 1992. The effect of that interpretation means that such networks are not subject to the Gas (Safety and Measurement) Regulations 2010 or various gas governance arrangements administered by Gas Industry Co. Following the Ruling Panel's decision, the Ministry of Economic Development recommended a change to the definition of 'Distributor' in the Gas

Act 1992 to ensure private networks are included in the definition of distribution system. That proposed amendment is yet to be introduced.

3.2 Retailer access

Draft principle 1 states: '[a]ll Retailers should receive access to a distribution system on substantially similar terms'. GasNet, MRP, and Powerco support the draft principle. Contact's preference is for the principle to be more direct and suggest 'the Distributor will give all Retailers equal access to the distribution services and will treat all retailers equitably.'

Gas Industry Co notes that the intention of the Draft Principles is to ensure that distributors and retailers have the flexibility to negotiate mutually satisfactory commercial terms. We consider Contact's suggestion may be too restrictive in practice and may potentially limit the commercial negotiations between parties. Therefore, we do not consider the principle should be amended.

In relation to draft principle 2, Vector recommends that the term 'fairly represent the interests of the Retailer and Distributor' be replaced with 'reasonably reflect the interests of the Retailer and Distributor'. Vector's view is that the word 'fair' is highly subjective and divergent views on what the word means are likely to result. It also notes that the change better reflects the section 43F(2)(c) of the Gas Act 1992.

Gas Industry Co agrees with Vector that there could potentially be some disagreement on what 'fair' means. We have amended principle 2 in line with Vector's suggestion.

3.3 Referencing the NZS 5442

Two submitters considered that the reference to the NZS 5442 should be replaced by a reference to the Gas Safety and Measurement Regulations 2010. Other submitters noted the retailer information protocol in relation to the Gas Safety and Measurement Regulations that is currently being developed and thought the Draft Principles should reference that. Only one submitter suggested that the reference to NZS 5442 should be removed.

Gas Industry Co accepts that a more appropriate reference is to the Gas Safety and Measurement Regulations and has changed the principle accordingly. We do not consider it necessary to reference the retailer information protocol at this stage as we understand it has not yet been agreed. However, we are happy to revisit this decision once the final protocol is in place.

3.4 Consultation on changes to pricing

Contact proposed that draft principle 7 be amended as follows:

'changes to pricing structures and/or methodology should be subject to meaningful consultation and transparency, such that the intention and impact of the proposed changes are easily understood, and responses to Retailers' written comments including decisions on final structure are transparent and clear to all prior to notification of final prices.'

It considers this change will help clarify what is meant by 'transparent' and 'consultation'. Gas Industry Co agrees that the proposed change helps clarify the intention of the principle and has changed it in accordance with Contact's suggestion.

Most submitters commented on the time frame for Distributors notifying Retailers of a pricing change in draft principle 9. Submitters generally believed the time frame of 30 business days was too short, and does not align with current industry practice and therefore should be extended to at least 40 business days. Gas Industry Co notes the rationale presented in submissions and has extended the time to be 'no less than 40 business days'.

3.5 Service interruptions

Two submitters noted that the last sentence of draft principle 16 appeared to be incorrect as the principle deals with unplanned service interruptions, rather than planned, and therefore notification is not possible. We note that this was an oversight on our part and the intention was that there was a notification period for planned service interruptions. As a result we have moved the last sentence of draft principle 16 to draft principle 15 which deals with planned service interruptions.

Some submitters also noted that the minimum timeframe of 4 business days for notification was not long enough. It was suggested that a minimum of 10 business days would be more appropriate as it would allow the retailer time to process the notice and make its customers aware of the interruption. It is also noted that the retail benchmark terms require retailers provide their customer at least 4 business days' notice. We accept that the proposed timeframe may be too short and have amended it to allow for a minimum of 10 business days.

3.6 Critical contingencies

Three submitters commented on the Critical Contingency Operator's (CCO) intention to remove guidance regarding regional contingencies from the CCO information guide (and associated plan).

Gas Industry Co is aware of this. However the principle refers to regional effects not regional critical contingencies and therefore does not consider the principle needs amendment.

3.7 Timing of assessment

All submitters agreed that an assessment of Distribution agreements against the Draft Principles should take place. However, views differed as to when the assessment would take place.

Gas Industry Co intends to undertake its first assessment six months after endorsement of the Principles for Arrangements on Gas Distribution Systems by the Minister of Energy and Resources.

4

Updated Principles

4.1 Overview

Changes have been tracked into the Draft Principles presented in the consultation paper: *Draft Principles for Arrangements on Distribution Systems*. Appendix A contains a clean version of the Draft Principles.

4.2 Definitions

The definitions of certain terms contained in the Draft Principles, and a brief explanation of each, are provided below.

Term	Meaning	Explanation (as required)
Consumer	A person who uses gas supplied from a gas distribution system.	The definition includes consumers who are a party to a gas supply arrangement with a retailer.
Distributor	Has the same meaning as 'Gas Distributor' as set out in s 2(1) of the Gas Act 1992.	That is, any person that provides Line Function Services to another. At this time, in line with the decision of the Rulings Panel ³ , this definition does not include a participant that provides Line Function Services to <u>only</u> itself.
Distribution Services	Includes Line Function Services but may also include ancillary services.	Includes the distribution of gas quantities <u>and may include as well as any</u> other services the Distributor agrees to provide to the Retailer, such as metering.
Distribution Service Arrangement	Includes all documents relevant to the agreed relationship between a Distributor and a Retailer for the provision of Distribution Services over a distribution system.	Contractual arrangements are often the sum of the main written agreement along with other documentation that is referred to in the main agreement. For example, policies and procedures, or other information. This term seeks to encompass all information relevant to the relationship.
Line Function Services	Has the same meaning as set out in s 2(1) of the Gas Act 1992.	

³ Decision of the Rulings Panel in the matter of alleged breach notice 2009-104, 130, 138 etc (Nova Bypass). See the Gas Industry Co website for more information: http://www.gasindustry.co.nz/sites/default/files/u24/Nova_Bypass_Rulings_Panel_Decision_2.pdf.

Term	Meaning	Explanation (as required)
Line Charges	Refers to <u>any</u> charges (fixed, variable, or a combination of these) imposed by a Distributor for the provision of Line Function Services.	
Retailer	Any person who supplies gas and associated services to a Consumer or Consumers.	

4.3 General principles

Draft principle 1	Explanation
<p>All Retailers should receive access to a distribution system on substantially similar terms.</p> <p>Note: As far as possible, and without inhibiting innovation and the need to reflect special circumstances, distribution terms of access should be standardised across all distribution systems and Retailers.</p>	<p>This principle recognises that the nature of the market means Distributors do have a degree of market power. As such, it requires that the terms offered to one Retailer should be substantially similar to those offered to other Retailers.</p> <p>However, Gas Industry Co recognises that some aspects of Distribution Service Arrangements may need to be negotiated between the Retailer and Distributor. To the extent possible, we would like to see standardised terms of access.</p>

Draft principle 2	Explanation
<p>The Distribution Service Arrangement should <u>fairly reasonably</u> represent the interests of the Retailer and the Distributor (as parties to the agreement), and the Consumer (as ultimate beneficiary of the arrangement).</p>	<p>This principle recognises the <u>tendency towards</u> imbalance in leverage between the parties, and the lack of leverage for consumers. It seeks to prevent asymmetrical contractual arrangements.</p>

Draft principle 3	Explanation
<p>The Distribution Service Arrangement should be current and comprehensive; this can be achieved by establishing a process for regular review of the arrangement.</p>	<p>As industry arrangements change, it is important that these changes are reflected in contractual arrangements to provide protection to both parties. Regularly reviewing contracts will help to ensure any necessary changes are identified and made.</p>

4.4 Obligations and rights of the parties

Draft principle 4	Explanation
<p>The obligations and rights of the parties should be clearly and comprehensively set out in the Distribution Service Arrangement.</p> <p>The Distribution Service Arrangement should be consistent with, and the parties should act in accordance with, the requirements of all relevant legislation, regulations, and rules.</p> <p>Where a Retailer is legally responsible for matters that are physically or practically under the control of the Distributor, or one of the Distributor's service providers, the Distribution Service Arrangement should acknowledge those matters and describe how the Distributor will assist the Retailer to meet the relevant legal responsibilities.</p> <p>Note: An example of this is under <i>NZS 5442: 2008 Specification for reticulated natural gas</i>, where the Retailer is legally responsible – but not physically in control of – the gas specification. In this case the Distribution Service Arrangement should include a 'description' of this responsibility. It may be as simple as noting that the Distributor has an agreement with the TSO regarding the management of the quality of gas entering the distribution system, or something similar.</p> <p>The process for amending or varying the Distribution Service Arrangement should be described. There should be not less than 30 days' notice of the changes.</p> <p>The procedures for dispute resolution regarding the Distribution Service Arrangement, including the levels of escalation for discussion of issues arising out of the contractual relationship, should be clearly set out.</p>	<p>Contracts should be clear, especially in relation to the obligations and rights of parties. We consider this is critical for ensuring that arrangements function as intended.</p> <p>Contracts should be up-to-date with respect to relevant legislation. Gas Industry Co considers that clear identification of legal responsibilities is very important because the consequences of non-compliance can extend beyond the distribution contract.</p> <p>If either party wishes to amend the Distribution Service Arrangements, the contract should specify a process for doing so. The notice period for any such changes should be of a reasonable length to allow both parties to fully consider the proposed changes. Where possible, any such changes should be mutually agreed.</p> <p>A process for resolving disputes is a necessary element of any contract. We consider this process should be clearly set out and accessible to both parties.</p>

4.5 Distribution services provided

Draft principle 5	Explanation
<p>The Distribution Service Arrangement should describe the Distribution Services to be provided by the Distributor and the service standards for those services.</p>	<p>This principle does not name the specific Distribution Services that should be provided. However, it recognises the expectation that the Distributor will clearly identify all of the services it will provide to a Retailer.</p> <p>This principle also provides that the service standards for those services are identified in the contract.</p>

Draft principle 6	Explanation
<p>The Distribution Services and service standards should include all those aspects that are under the reasonable control of the Distributor, or a service provider to the Distributor.</p>	<p>This principle ensures that the services and service standards required in principle 5 are under the control of the Distributor, or a service provider to the Distributor. For example, it would be unreasonable to set out services for which the TSO is responsible.</p>

4.6 Pricing including pricing changes

Draft principle 7	Explanation
<p>Changes to pricing structures and/or <u>methodologies</u> should be <u>subject to meaningful consultation and transparency, and subject to reasonable consultation with Retailers such that the intention and impact of the proposed changes are easily understood, and responses to Retailers' written comments including decisions on final structure are transparent and clear to all prior to notification of final prices.</u></p>	<p>We consider it fair that the Distributor consult with the Retailer on the proposed pricing change.</p>
Draft principle 8	Explanation
<p>A Distributor's notification of price changes to a Retailer should be accompanied by all of the information required to enable the effective implementation of the price changes by the Retailer.</p>	<p>To ensure the proposed pricing change is fully understood by the Retailer, all supporting documentation should be provided to the Retailer on notification.</p>

Draft principle 9	Explanation
<p>The notice period given by a Distributor for changes in pricing structures or levels should take into account the notice period that Retailers must provide to Consumers for consequential changes in retail prices and the time for preparation of that notice. This period should be no less than 30 40 business days.</p>	<p>Changes should be notified within a reasonable time frame. The time frame is consistent with the Retail Benchmarks.</p>

4.7 Commencement and cessation of line charges

Draft principle 10	Explanation
<p>The Distribution Service Arrangement should clearly describe the Distributor's policy with respect to the commencement and cessation of line charges for the supply of gas.</p>	<p>The contract should be transparent by providing clear indication of when the Distributor will begin charging line charges and end line charges.</p>

4.8 Disconnection and reconnection

Draft principle 11	Explanation
<p>The Distribution Service Arrangement should clearly describe the Distributor's policy with respect to the disconnection and reconnection of a supply point on its system.</p> <p>Note: The Distributor may refer to established industry practice as described in policies such as the Gas Association of New Zealand (GANZ) Protocol on Disconnection/Reconnection of gas supply.</p>	<p>Gas Industry Co is aware of previous issues in relation to disconnection and reconnection between Retailers and Distributors. We consider that the contract should be clear and set out what the expectations are in terms of a Distributor's policy on disconnection and reconnection.</p>

4.9 Information exchange and use

Draft principle 12	Explanation
<p>The Distribution Service Arrangement should set out the amount, type, and format of information required to be exchanged between the parties. Formats should be, as far as possible, standardised and in line with any industry-agreed standard information exchange protocols.</p>	<p>To ensure information is exchanged in the most efficient way, parties should have clearly defined arrangements.</p>

Draft principle 13	Explanation
<p>Information will only be requested under the Distribution Service Arrangement for the purposes of enabling efficient and effective gas distribution.</p>	<p>Information requested must be reasonable and relate to promoting efficiency in the distribution of gas.</p>

Draft principle 14	Explanation
<p>Information will only be used for the purpose for which it is provided.</p>	<p>If information is provided to a party for a specific purpose it should not be used for another purpose. This includes confidential and non-confidential information.</p>

4.10 Service interruptions

Draft principle 15	Explanation
<p>The Distribution Service Arrangement should explain, or refer the Retailer to, the Distributor's policy for planned interruptions to Distribution Services. It is expected that the policy would take account of the costs of notification for the retailer and whether other lower-cost alternatives can be adopted.</p> <p><u>The minimum notice period of a planned shutdown should be no less than 10 business days unless agreed otherwise with the Retailer.</u></p>	<p>The Distribution Service Arrangement should clearly identify how and when it will interrupt a Retailer's service. This will help to minimise risks to the Retailer and Consumer.</p>

Draft principle 16	Explanation
<p>The Distribution Service Arrangement should describe how the Distributor will provide the Retailer with timely information when an unplanned service interruption occurs. The information to the Retailer is expected to include the cause(s) of the interruption and progress towards reinstatement of line function services. The minimum notice period of a planned shutdown should be no less than 4 business days unless agreed otherwise with the Retailer.</p>	<p>The Distribution Service Arrangement should clearly identify how and when it will interrupt a Retailer's service. This will help to minimise risks to the Retailer and Consumer.</p>

4.11 Managing critical contingencies

Draft principle 17	Explanation
<p>Contracts should provide for the <u>effective</u> management of emergencies on the network in accordance with the Gas Governance (Critical Contingency Management) Regulations 2008, <u>where load curtailment is instructed, and coordination of the isolation and restoration of supplies to consumers (and relighting of pilots) to ensure network security and consumer safety is not compromised. so the risks for all of parties are minimised and appropriately managed.</u></p>	<p>To ensure parties understand their respective roles and responsibilities when a critical contingency event occurs, it is important that contracts align with the Gas Governance (Critical Contingency Management) Regulations 2008.</p> <p><u>Effective management of critical contingencies could include, where #</u> a Retailer contracts a Distributor to perform Consumer usage monitoring and/or disconnection services during a critical contingency, details of these services being specified.</p>

4.12 Publication of the standard distribution agreement

Draft principle 18	Explanation
The Distributor's most recent standard Distribution Service Agreement should be publicly available on the Distributor's website.	Transparency is an important part of providing for efficient arrangements.

5

Next steps

5.1 Minister endorsement

Gas Industry Co will develop a recommendation to be submitted to the Minister. Through the recommendation we will seek the Minister's endorsement of the Principles for Arrangements on Gas Distribution Systems as an industry arrangement.

5.2 Assessment

If the Minister endorses the principles, Gas Industry Co will undertake an assessment of Distributor's arrangements against the principles. We will announce the timing for the assessment after endorsement is received. Before we seek the Minister's endorsement, we will develop a short paper outlining the framework for the review to take place. We will circulate this paper for a short consultation. We envisage that the assessment process would be similar to the one undertaken for the Retail Benchmarks.

Appendix A Revised Principles

Definitions

The definitions of certain terms contained in the Draft Principles, and a brief explanation of each, are provided below.

Term	Meaning	Explanation (as required)
Consumer	A person who uses gas supplied from a gas distribution system.	The definition includes consumers who are a party to a gas supply arrangement with a retailer.
Distributor	Has the same meaning as 'Gas Distributor' as set out in s 2(1) of the Gas Act 1992.	That is, any person that provides Line Function Services to another. At this time, in line with the decision of the Rulings Panel ⁴ , this definition does not include a participant that provides Line Function Services only to itself.
Distribution Services	Includes Line Function Services	Includes the distribution of gas quantities and may include other services the Distributor agrees to provide to the Retailer.
Distribution Service Arrangement	Includes all documents relevant to the agreed relationship between a Distributor and a Retailer for the provision of Distribution Services over a distribution system.	Contractual arrangements are often the sum of the main written agreement along with other documentation that is referred to in the main agreement. For example, policies and procedures, or other information. This term seeks to encompass all information relevant to the relationship.
Line Function Services	Has the same meaning as set out in s 2(1) of the Gas Act 1992.	
Line Charges	Refers to any charges imposed by a Distributor for the provision of Line Function Services.	
Retailer	Any person who supplies gas and associated services to a Consumer or Consumers.	

⁴ Decision of the Rulings Panel in the matter of alleged breach notice 2009-104, 130, 138 etc (Nova Bypass). See the Gas Industry Co website for more information: http://www.gasindustry.co.nz/sites/default/files/u24/Nova_Bypass_Rulings_Panel_Decision_2.pdf.

General principles

Draft principle 1	Explanation
<p>All Retailers should receive access to a distribution system on substantially similar terms.</p> <p>Note: As far as possible, and without inhibiting innovation and the need to reflect special circumstances, distribution terms of access should be standardised across all distribution systems and Retailers.</p>	<p>This principle recognises that the nature of the market means Distributors do have a degree of market power. As such, it requires that the terms offered to one Retailer should be substantially similar to those offered to other Retailers.</p> <p>However, Gas Industry Co recognises that some aspects of Distribution Service Arrangements may need to be negotiated between the Retailer and Distributor. To the extent possible, we would like to see standardised terms of access.</p>

Draft principle 2	Explanation
<p>The Distribution Service Arrangement should reasonably represent the interests of the Retailer and the Distributor (as parties to the agreement).</p>	<p>This principle recognises the tendency towards imbalance in leverage between the parties. It seeks to prevent asymmetrical contractual arrangements.</p>

Draft principle 3	Explanation
<p>The Distribution Service Arrangement should be current and comprehensive; this can be achieved by establishing a process for regular review of the arrangement.</p>	<p>As industry arrangements change, it is important that these changes are reflected in contractual arrangements to provide protection to both parties. Regularly reviewing contracts will help to ensure any necessary changes are identified and made.</p>

Obligations and rights of the parties

Draft principle 4	Explanation
<p>The obligations and rights of the parties should be clearly and comprehensively set out in the Distribution Service Arrangement.</p> <p>The Distribution Service Arrangement should be consistent with, and the parties should act in accordance with, the requirements of all relevant legislation, regulations, and rules.</p> <p>Where a Retailer is legally responsible for matters that are physically or practically under the control of the Distributor, or one of the Distributor's service providers, the Distribution Service Arrangement should acknowledge those matters and describe how the Distributor will assist the Retailer to meet the relevant legal responsibilities.</p> <p>Note: An example of this is under <i>NZS 5442: 2008 Specification for reticulated natural gas</i>, where the Retailer is legally responsible – but not physically in control of – the gas specification. In this case the Distribution Service Arrangement should include a 'description' of this responsibility. It may be as simple as noting that the Distributor has an agreement with the TSO regarding the management of the quality of gas entering the distribution system, or something similar.</p> <p>The process for amending or varying the Distribution Service Arrangement should be described. There should be not less than 30 days' notice of the changes.</p> <p>The procedures for dispute resolution regarding the Distribution Service Arrangement, including the levels of escalation for discussion of issues arising out of the contractual relationship, should be clearly set out.</p>	<p>Contracts should be clear, especially in relation to the obligations and rights of parties. We consider this is critical for ensuring that arrangements function as intended.</p> <p>Contracts should be up-to-date with respect to relevant legislation. Gas Industry Co considers that clear identification of legal responsibilities is very important because the consequences of non-compliance can extend beyond the distribution contract.</p> <p>If either party wishes to amend the Distribution Service Arrangements, the contract should specify a process for doing so. The notice period for any such changes should be of a reasonable length to allow both parties to fully consider the proposed changes. Where possible, any such changes should be mutually agreed.</p> <p>A process for resolving disputes is a necessary element of any contract. We consider this process should be clearly set out and accessible to both parties.</p>

Distribution services provided

Draft principle 5	Explanation
The Distribution Service Arrangement should describe the Distribution Services to be provided by the Distributor and the service standards for those services.	This principle does not name the specific Distribution Services that should be provided. However, it recognises the expectation that the Distributor will clearly identify all of the services it will provide to a Retailer. This principle also provides that the service standards for those services are identified in the contract.

Draft principle 6	Explanation
The Distribution Services and service standards should include all those aspects that are under the reasonable control of the Distributor, or a service provider to the Distributor.	This principle ensures that the services and service standards required in principle 5 are under the control of the Distributor, or a service provider to the Distributor. For example, it would be unreasonable to set out services for which the TSO is responsible.

Pricing including pricing changes⁵

Draft principle 7	Explanation
Changes to pricing structures and/or methodology should be subject to meaningful consultation and transparency such that the intention and impact of the proposed changes are easily understood, and responses to Retailers' written comments, including decisions on final structure are transparent and clear to all prior to notification of final prices.	We consider it fair that the Distributor consult with the Retailer on the proposed pricing change.
Draft principle 8	Explanation
A Distributor's notification of price changes to a Retailer should be accompanied by all of the information required to enable the effective implementation of the price changes by the Retailer.	To ensure the proposed pricing change is fully understood by the Retailer, all supporting documentation should be provided to the Retailer on notification.

⁵ Note: Gas Industry Co recognises that overall pricing levels for Vector and Powerco are controlled by authorisations issued by the Commerce Commission. These authorisations also set out pricing principles. The Electricity Authority has proposed similar principles for electricity distribution. As such, these Principles look only at the reasonable notification of price changes to Retailers and Consumers.

Draft principle 9	Explanation
<p>The notice period given by a Distributor for changes in pricing structures or levels should take into account the notice period that Retailers must provide to Consumers for consequential changes in retail prices and the time for preparation of that notice. This period should be no less than 40 business days.</p>	<p>Changes should be notified within a reasonable timeframe. The timeframe is consistent with the Retail Benchmarks.</p>

Commencement and cessation of line charges

Draft principle 10	Explanation
<p>The Distribution Service Arrangement should clearly describe the Distributor's policy with respect to the commencement and cessation of line charges for the supply of gas.</p>	<p>The contract should be transparent by providing clear indication of when the Distributor will begin charging line charges and end line charges.</p>

Disconnection and reconnection

Draft principle 11	Explanation
<p>The Distribution Service Arrangement should clearly describe the Distributor's policy with respect to the disconnection and reconnection of a supply point on its system.</p>	<p>Gas Industry Co is aware of previous issues in relation to disconnection and reconnection between Retailers and Distributors. We consider that the contract should be clear and set out what the expectations are in terms of a Distributor's policy on disconnection and reconnection.</p>

Information exchange and use

Draft principle 12	Explanation
<p>The Distribution Service Arrangement should set out the amount, type, and format of information required to be exchanged between the parties. Formats should be, as far as possible, standardised and in line with any industry-agreed standard information exchange protocols.</p>	<p>To ensure information is exchanged in the most efficient way, parties should have clearly defined arrangements.</p>

Draft principle 13	Explanation
<p>Information will only be requested under the Distribution Service Arrangement for the purposes of enabling efficient and effective gas distribution.</p>	<p>Information requested must be reasonable and relate to promoting efficiency in the distribution of gas.</p>

Draft principle 14	Explanation
<p>Information will only be used for the purpose for which it is provided.</p>	<p>If information is provided to a party for a specific purpose it should not be used for another purpose. This includes confidential and non-confidential information.</p>

Service interruptions

Draft principle 15	Explanation
<p>The Distribution Service Arrangement should explain, or refer the Retailer to, the Distributor's policy for planned interruptions to Distribution Services. It is expected that the policy would take account of the costs of notification for the retailer and whether other lower-cost alternatives can be adopted. The minimum notice period of a planned shutdown should be no less than 10 business days unless agreed otherwise with the Retailer.</p>	<p>The Distribution Service Arrangement should clearly identify how and when it will interrupt a Retailer's service. This will help to minimise risks to the Retailer and Consumer.</p>

Draft principle 16	Explanation
<p>The Distribution Service Arrangement should describe how the Distributor will provide the Retailer with timely information when an unplanned service interruption occurs. The information to the Retailer is expected to include the cause(s) of the interruption and progress towards reinstatement of line function services.</p>	<p>The Distribution Service Arrangement should clearly identify how and when it will interrupt a Retailer's service. This will help to minimise risks to the Retailer and Consumer.</p>

Managing critical contingencies

Draft principle 17	Explanation
<p>Contracts should provide for the effective management of emergencies on the network in accordance with the Gas Governance (Critical Contingency Management) Regulations 2008 where load curtailment is instructed, and coordination of the isolation and restoration of supplies to consumers (and relighting of pilots) to ensure network security and consumer safety is not compromised.</p>	<p>To ensure parties understand their respective roles and responsibilities when a critical contingency event occurs, it is important that contracts align with the Gas Governance (Critical Contingency Management) Regulations 2008.</p> <p>Effective management of critical contingencies could include, where a Retailer contracts a Distributor to perform Consumer usage monitoring and/or disconnection services during a critical contingency, details of these services being specified.</p>

Publication of the standard distribution agreement

Draft principle 18	Explanation
<p>The Distributor's most recent standard Distribution Service Agreement should be publicly available on the Distributor's website.</p>	<p>Transparency is an important part of providing for efficient arrangements.</p>

