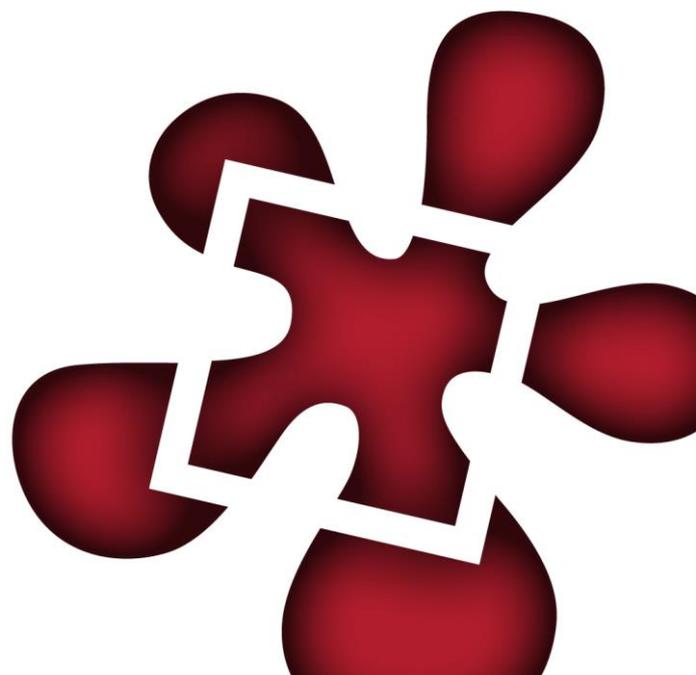


## Assessment Report

Assessment of Contracts against Gas Industry Co's  
Gas Distribution Contracts Oversight Scheme

June 2013



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## Executive Summary

Elwood Law was engaged to assess as at 1 February 2013 the alignment of standard published contracts for gas distribution services against Gas Industry Co's Gas Distribution Contracts Oversight Scheme (the **Scheme**). The date of 1 February 2013 was set by Gas Industry Co after consulting with industry on the time that would be reasonably required to update standard gas distribution contracts, because distributors advised these contracts would be published before then.

However, as at 1 February 2013, none of the distributors had published a standard gas distribution contract. As a result, technically, as at the assessment date the overall alignment of published standard gas distribution contracts with the Scheme is "Nil".<sup>1</sup>

Each of the distributors covered by the Scheme is in the process of developing a standard gas distribution contract, which they each call a Gas Use of System Agreement (**GUoSA**).

Each distributor covered by the Scheme provided us with a draft of its GUoSA and information on its process to develop and finalise its GUoSA. Each distributor is (to varying degrees) basing its GUoSA on the Model Electricity Use of System Agreement (**MEUoSA**) published by the Electricity Authority in September 2012. The process to develop each GUoSA includes each distributor updating the MEUoSA to the extent appropriate to reflect gas requirements, network requirements and other requirements of the distributor, and consulting with retailers.

There are obvious issues in assessing draft GUoSAs which are currently being negotiated. It would also be impractical to assess the various distribution contracts that are in place as these are outside the scope of the Scheme.

We are aware that some distributors may consider the overall assessment of "Nil" does not appropriately reflect the efforts they are making to work towards alignment and the comprehensiveness of the draft GUoSAs. If the drafts were finalised as is, our rough assessment of the overall alignment of the drafts as at 1 February 2013 against the Principles of the Scheme would be "Moderate"<sup>2</sup>. However, as negotiations on the drafts will have continued since 1 February 2013, the alignment of the draft GUoSAs as at the date of this report may have changed.

Each distributor plans to have published its standard gas distribution contract prior to the next scheduled assessment date of 1 February 2014.

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<sup>1</sup> Under the Scheme, "Nil" means "No alignment with the intention of the Principle".

<sup>2</sup> Under the Scheme, "Moderate" means "Meets the intention of the Principle in some respects. More substantive changes are needed to improve the ranking".

## Introduction

### The Scheme

On 3 September 2012, the Minister of Energy and Resources endorsed Gas Industry Co's recommendation for a voluntary, industry-agreed, Gas Distribution Contracts Oversight Scheme. The overall purpose of the Scheme is to ensure that the core terms and conditions in distribution contracts are clear and reasonable, promote market efficiency and ultimately enhance consumer outcomes.

The Scheme established a set of principles (**the Principles**) against which standard gas distribution service agreements would be measured. The Scheme does not assess negotiated agreements.

### Our Assessment

Elwood Law was appointed by Gas Industry Co to perform the initial assessment of standard gas distribution service agreements as at 1 February 2013 against the Principles. As required by the Scheme, the results of this initial assessment do not publicly identify individual distributors.

### Our Independence

Elwood Law has performed its assessment independently of Gas Industry Co, but consistently with the Scheme. This report does not bind Gas Industry Co.

## Methodology

### Distribution Principles

Our report is based on the Principles as specified in the Recommendation. For ease of reference, these Principles are duplicated in Attachment 1.

### Distributors covered by the Scheme

The distributors covered by the Scheme are GasNet, Powerco and Vector<sup>3</sup>. Nova Energy is technically a distributor following recent amendments to the Gas Act. However, Nova Energy confirmed to us that it only provides distribution services to its own retail arm and does not intend to publish a standard gas distribution contract. Gas Industry Co confirmed that, as a result, Nova Energy is not covered by the Scheme and is outside the scope of our assessment.

### Distribution arrangements

The Scheme envisaged that we would assess standard gas distribution service agreements as at 1 February 2013 against the Principles. However, as at 1 February 2013, there were no standard gas distribution service agreements.

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<sup>3</sup> For the purpose of this report we have viewed a "group of related companies" as one distributor. For example, Vector has been viewed as one distributor although technically different legal entities own different parts of Vector's distribution network.

As at the assessment date, there are a variety of distribution contracts in the market that have previously been agreed between retailers and distributors. These contracts are confidential and outside the scope of the Scheme. They also have not been provided to us for the purpose of our assessment. We understand that most of the agreements are out of date and many retailers are “off contract”. There appears to be widespread industry support for each distributor to update its standard distribution contract.

At the assessment date each distributor was in the process of preparing a standard gas distribution service agreement, which each distributor refers to as a Gas Use of System Agreement. Each distributor provided to us in early February a copy of its draft GUoSA current at 1 February 2013. The drafts presented for review were at varying stages of preparation, but none of the GUoSAs were in a finalised form.

Our belief is that the draft GUoSAs are unlikely to be finalised and published until at least the second half of 2013. Each distributor has confirmed that it intends to have published its standard GUoSA in time for the next assessment against the Principles, which is currently scheduled for 1 February 2014.

**Assessment process**

The Scheme requires that each published standard GUoSA be assessed as a whole against each Principle using the following qualitative scores.

Score	Description
Full	Meets the intention of the Principle in all respects.
Substantial	Meets the intention of the Principle in most respects. Only minor changes are needed to meet ‘full’ ranking.
Moderate	Meets the intention of the Principle in some respects. More substantive changes are needed to improve the ranking.
Low	Little alignment with the intention of the Principle and substantial changes are needed to improve the ranking.
Nil	No alignment with the intention of the Principle.

Prior to the 1 February 2013 assessment date, we agreed an assessment process with Gas Industry Co which was targeted at achieving a cost effective assessment. The agreed process recognised that it may be inappropriately time consuming to assess comprehensively every clause in the GUoSAs for alignment with the Principles. Rather a top down assessment process and a maximum budget for the assessment was agreed. Within the level of resourcing agreed, we were to focus our assessment on the clauses and issues of most commercial and industry importance, focus on any problematic clauses, focus on areas of misalignment identified by industry participants and, as time permitted, identify any other issues with alignment.

The draft nature of the GUoSAs made the anticipated assessment process problematic. In many cases it is the clauses and issues of most commercial and industry importance which are the most likely to change in final negotiations. Also distributors and retailers have not yet formed a view on areas of misalignment with the Principles. In some cases people were willing to share their personal view of the draft GUoSAs, but stressed it was

on the basis that the company they represented had yet to determine its formal view. Also, there are currently particularly high workloads in relation to negotiations of Electricity Use of System Agreements which have impacted on stakeholders' resourcing and availability to input into this process.

To reflect the draft nature of the GUoSAs an amended assessment approach was agreed with Gas Industry Co in March 2013. This revised assessment approach acknowledged:

- As there were no standard published GUoSAs as at 1 February 2013, distributors had technically not aligned with the requirements of the Scheme.
- There are obvious difficulties in assessing draft GUoSAs, which may undergo substantial revision during the assessment process.
- Our assessment should, to the extent practicable, provide useful guidance to distributors and retailers on how to finalise GUoSAs in a manner that is likely to align with the Principles.
- Consultation with the industry is important. A draft of our report should be prepared and Gas Industry Co, retailers and distributors given a reasonable opportunity to provide feedback. Elwood Law should also meet with any retailer or distributor that wishes to provide feedback in person.
- The final report should be finalised no later than mid-2013.

#### **Draft report and industry feedback**

A draft report was circulated to relevant industry participants on 5 April 2013. In addition, we circulated and discussed various drafts of this report with Gas Industry Co. As the draft GUoSAs are based on the Electricity Authority's MEUoSA, we met with the Electricity Authority to discuss some high level aspects of our analysis (e.g. to confirm that we had correctly understood the Electricity Authority's process to develop the MEUoSA and the intent of the MEUoSA).

We received feedback from all distributors and the vast majority of retailers. The feedback we received from retailers and distributors on our draft report was largely supportive of our overall conclusions. The draft report attached (as Attachment 2) some initial, reasonably high level views and guidance on the extent to which the draft GUoSAs in our view aligned with each of the Principles and some comments on what amendments would be required in order to achieve full alignment. Most of the feedback that we received focused on particular aspects of that draft guidance, rather than the findings in the main body of the report. A further discussion of this feedback is summarised under the heading "Guidance" below.

## Findings

In accordance with the Scheme, the findings in this report do not identify the assessment results of any particular distributor.

### Overall alignment

As noted above, the overall degree of alignment with the Scheme as at 1 February 2013 is technically “Nil”. This is because there were no standard GUoSAs published at the assessment date of 1 February 2013.

Gas Industry Co is likely to be disappointed that none of the distributors managed to publish a standard GUoSA prior to the assessment date. However, all of the distributors are in the process of developing a standard GUoSA. Each distributor provided us with a draft of its GUoSA and information on its process to develop and finalise its GUoSA.

### GUoSAs are being based on electricity agreements

All of the distributors covered by the Scheme have chosen to base (to varying degrees) their GUoSA on the Model Electricity Use of System Agreement published by the Electricity Authority in September 2012 (the MEUoSA).

From our discussions with retailers and distributors, it appears that:

- Where distributors may have previously had contracts covering both distribution and metering services, all of the distributors are moving to separate metering and use of system agreements. We understand this is consistent with the approach being taken in the electricity industry.
- Some distributors have previously had different distribution contracts for different pipelines or networks, but all of the distributors have confirmed their intent to align their GUoSA terms across all of their network(s) to the fullest extent possible.
- Where distributors are also electricity distributors, they are preparing Electricity Use of Systems Agreements also based on the MEUoSA. In most cases if a distributor is proposing an amendment to the MEUoSA for its electricity network which is also relevant for its gas network then its intent is to also propose that amendment in its GUoSA. Accordingly, until the distributor’s Electricity Use of System Agreement is finalised, it would appear the distributor is unlikely to finalise its GUoSA.

Two of the distributors appear to have been quite transparent regarding the changes they are proposing to the MEUoSA and the rationale for those changes.

The provisions in the MEUoSA have been through substantial consultation and have taken many years to prepare and confirm. There appears to be a general assumption in the industry that GUoSA terms should align with Gas Industry Co’s Principles if the GUoSA is consistent with the MEUoSA and amended only to address gas specific requirements (e.g. such as odourisation, pressure, quality, contingency arrangements etc).

### Process to prepare standard GUoSAs

As noted above, each of the distributors is currently in the process of developing standard GUoSAs. The draft GUoSAs provided to us for the purpose of our assessment were at various stages of completeness. We

commend those distributors who have already undertaken their first round of negotiations with retailers on their draft GUoSAs and for the efforts they are making to finalise their standard GUoSAs.

All of the draft GUoSAs provided for the purpose of the assessment have been loosely based on the MEUoSA and all require additional work to be finalised. From our discussions with retailers and distributors, we understand the work required is:

- a process to ensure comprehensiveness. As the documents have been built on an electricity precedent, both retailers and distributors are keen to ensure that the GUoSAs cover off all necessary gas specific matters; and
- resolution of the remaining commercial issues.

We anticipate the distributors will not have finalised their standard GUoSAs until later in 2013. However, all of the distributors have confirmed they intend to have published a standard GUoSA prior to the next scheduled Scheme assessment date of 1 February 2014.

#### **Initial view on likely alignment of draft GUoSAs**

We are aware that some distributors may consider the overall assessment of “Nil” does not appropriately reflect the efforts they are making to work towards alignment and the level of comprehensiveness of the current draft GUoSAs. So, for the purpose of this assessment, we considered at a high level the alignment of the current draft GUoSAs with the Principles of Gas Industry Co’s Scheme.

If we were asked to give a view, we would assess overall the alignment of the current draft GUoSAs (i.e. assuming they were finalised as is) with the Principles as “Moderate” (i.e. “Meets the intention of the Principles in some respects. More substantive changes are needed to improve the ranking”). However, we note this assessment is relatively meaningless as:

- there are a number of Principles for which we have not completed all of the analysis that would be required to make a final assessment (e.g. where we require further clarification from Gas Industry Co); and
- the draft GUoSAs are likely to have been progressed in the period that has lapsed between the assessment date of 1 February and the date this report is published. We note that often in negotiations it is the matters of the most commercial and industry importance that are the most problematic matters to agree. We have not considered any changes since the draft GUoSAs were provided and, as such, are not in a position to provide any comment on the level of alignment of the draft GUoSAs as at the publication date of this report.

It is also worth highlighting that there are a host of documents, policies and industry understandings (documented or otherwise) that could be relevant to interpreting contractual obligations and relevant to the meaning of a provision in a GUoSA. We have not taken into account all of these matters in this assessment process, indeed some of the policies and other documents have not yet been finalised. As a result, aspects

of the GUoSA which don't appear to align with a Principle may in fact align with a Principle if all other contextually relevant material was considered.

## Guidance

Gas Industry Co asked us to provide, to the extent practicable, useful guidance material to assist distributors and retailers to finalise GUoSAs in a manner that is likely to align with the Principles.

### **Draft guidance provided**

In order to provide this guidance, we performed a high level assessment of each draft GUoSA with the Principles. We originally included in the draft report released to stakeholders for consultation a summary of that analysis (which was attached as "Attachment 2" to the draft report). The expectation at that stage was that Attachment 2 would be a confidential part of the report released to Gas Industry Co, distributors and retailers only.

The feedback that we received on the draft Attachment 2 suggests that on the whole the provision of this draft achieved its aim of providing useful guidance and helped to clarify how the finalised GUoSAs may be assessed under the Scheme. The provision of the draft also helped to identify some of the matters which will need further consideration either prior to or during the 2014 assessment.

### **Feedback on our draft guidance**

It is worth re-emphasising that the consultation on our draft assessment report (including the draft of Attachment 2) occurred at the same time as commercial negotiations on the very documents that we were assessing. This added an unusual dimension to the feedback. As a result, it was difficult to have transparent and open discussions with retailers and distributors providing feedback about the feedback provided to us. Participants were often mindful of providing responses to us that would protect their negotiating positions or expressly asked us not to disclose their submissions to other participants.

#### *Distributors' views*

Distributors confirmed that our draft guidance would be taken into account in their processes to finalise their draft GUoSAs. In particular, where we had identified drafting issues that may give rise to alignment issues and those drafting issues could easily be fixed, the distributors essentially said that they would aim to address these in their finalised GUoSAs.

Distributors stressed the considerable focus across the industry on developing GUoSAs. It was plain that a key commercial goal of all distributors is to have up-to-date, comprehensive arrangements which retailers will agree to execute. There were some concerns that our assessment process or assessment report could derail or delay the development of GUoSAs or potentially be used by some parties to try to increase their negotiating leverage.

Not surprisingly, there were some alignment issues where distributors disagreed with our initial view. Some of their comments changed our initial assessment (especially where they highlighted other clauses within the draft

GUoSA, their policies or other documents which we had not identified in our initial review as relevant).

There were also some alignment issues where distributors disagreed with our interpretation of a Principle or considered that our draft assessment was different to what was contemplated by Gas Industry Co. For example:

- in general terms, to be aligned with the Principle, we were looking to see that there was also a contractual obligation which aligned with the Principle (e.g. a contractual obligation to consult) but in some cases distributors considered their regulatory obligations and processes sufficiently met the requirements of the Principle;
- there were some queries over what certain phrases in the Principles and Gas Industry Co's explanations meant and how they should be applied; and
- on some Principles distributors suggested that our initial views delved into issues in greater detail than was required to assess the draft GUoSAs against Gas Industry Co's Scheme but on other Principles additional information was provided as also relevant to our assessment. In particular, there were a number of suggestions in relation to the assessment of Principle 2 (which requires the GUoSA to reasonably represent the interests of the retailer and the distributor) which will need to be considered in more detail in the 2014 assessment.

#### *Retailers' views*

Retailers largely agreed with our draft assessment and, overall, retailers were fairly comfortable with the conclusions we had drawn in the draft documentation and the guidance we provided in Attachment 2. From the feedback provided by retailers it was fairly easy to identify which of the draft GUoSAs retailers were more comfortable with and which they were less comfortable with.

Some responses primarily focused on the commercial issues rather than the requirements of Gas Industry Co's Scheme (e.g. one retailer highlighted to us the key clauses and amendments to the GUoSAs which they would be seeking as part of the commercial negotiations on each GUoSA and left it to us to figure out which Principles (if any) those comments related to).

There were a number of instances where retailers took a different view to our initial view and to the view of distributors on the extent to which a particular GUoSA aligned with a particular Principle (with, not surprisingly, retailers generally suggesting our initial assessment was too generous and distributors generally suggesting our initial assessment was too harsh).

Some retailers also highlighted matters where retailers are totally dependent on other participants in the supply chain (including distributors) in order for the retailers to meet their regulatory obligations (e.g. the regulated obligations on gas retailers for matters of safety such as odourisation, pressure and quality) and stressed that it will be crucial for the assessment (particularly of Principle 4) to assess matters related to those obligations and insufficient for the GUoSAs in respect of these obligations to only commit to comply with regulatory arrangements.

### Decision not to finalise our guidance

After taking into account the feedback provided on the draft report, we decided to remove Attachment 2 from our report. The main reason for not finalising the attachment was due to industry concerns (including confidentiality concerns, varying views that were held over what “a consolidated” report should include, and some concerns that the Attachment may improperly impact on commercial negotiation processes).

In any event, we are of the view that the circulation of the draft guidance was sufficient to meet Gas Industry Co’s request that we provide, to the extent practicable, useful guidance material to assist distributors and retailers to finalise GUoSAs in a manner that is likely to align with the Principles.

We have confirmed with Gas Industry Co that they are comfortable with us removing Attachment 2 from our report. The draft of that Attachment will be left as a draft, confidential, industry facing document.

We note that, prior to reaching the decision to remove Attachment 2, we forwarded to Gas Industry Co a redlined and confidential draft of Attachment 2 which incorporated much of the feedback provided on that document by the industry.

### Matters for Gas Industry Co to consider

We have suggested to Gas Industry Co that it would be helpful if it considered or provided additional guidance on or explanation of the following points prior to the 1 February 2014 assessment date:

- What prudential requirements (or range of prudential requirements) “reasonably represent the interests of the parties” for the purpose of Principle 2?
- In relation to Principle 4, does a GUoSA also need to provide for 30 days’ notice for a de minimus change to achieve full alignment? Also, in relation to the phrase “Where possible, any such changes should be mutually agreed”, does Gas Industry Co consider that distributors could achieve full alignment if they changed operational documents (e.g. specified distribution network policies) unilaterally on notice after reasonable negotiating effort did not result in an agreed variation to the contract?
- What level of granularity would Gas Industry Co expect in order for a GUoSA to “describe” (for the purpose of Principle 5) the services and service standards? For example, does a commitment to provide services to “Good Gas Industry Practice” or to the standards expected of a “Reasonable and Prudent Operator” fully align with this Principle? Our initial view was that more a specific description of service standards was required in order to describe the service standards and achieve full alignment.
- In relation to Principle 12, will Gas Industry Co be in a position to formally approve industry agreed codes and protocols? There are some contractual provisions in draft GUoSAs relating to compliance with approved codes. Also, the phrase “as far as possible” has been used in Principle 12. Does, in Gas Industry Co’s view, a

commitment to “use reasonable endeavours to comply with relevant information exchange protocols provided it is cost effective for both parties” fully align with this phrase?

- What types of clauses would Gas Industry Co expect to see in GUoSAs in order to achieve alignment with Principles 13 and 14 and, in particular, would the standard information clauses in the MEUoSA achieve full alignment with these Principles or are additional provisions necessary? These Principles relate to requests for information and use of information. Generally the draft GUoSAs specify types of information that must be provided but don’t include express provisions that prevent distributors from asking for other information. It was suggested to us that core aspects of the Principles were met by implied terms (i.e. it was implicit that distributors will only ask for information where there is an express contractual term covering that information and implicit that information would only be used for network management and other distribution related purposes). Also, there are very few provisions in the draft GUoSAs limiting the use of non-confidential information provided by distributors (even though this is envisaged by Principle 14) and it was suggested to us that this Principle needed to be reconsidered (as it should not matter how non-confidential information is used).
- Principle 15 includes the phrase “The minimum notice period of a planned shutdown should be no less than 10 business days unless agreed otherwise by the Retailer”. This Principle appears to anticipate two types of service interruption (planned and unplanned). Generally the GUoSAs provide for 10 working days’ notice as standard for planned interruptions but allow for lesser notice for “planned interruptions required on a more urgent basis”. It would be useful if Gas Industry Co confirmed whether “urgent planned events” are to be considered “unplanned” shutdowns for the purposes of the assessment of Principle 15.

## Attachment 1 – The Principles

Term	Meaning	Gas Industry Co's Explanation (where applicable)
Consumer	A person who uses gas supplied from a gas distribution system.	The definition includes Consumers who are a party to a Distribution Service 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 <sup>4</sup> , 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: <b>line function services</b> means - (a) the provision and maintenance of pipelines for the conveyance of gas: (b) the operation of such pipelines, including the assumption of responsibility for losses of gas	
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.	

<sup>4</sup> 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](http://www.gasindustry.co.nz/sites/default/files/u24/Nova_Bypass_Rulings_Panel_Decision_2.pdf).

**General principles**

<b>Principle 1</b>	<b>Gas Industry Co's Explanation</b>
<p>All Retailers should receive access to a distribution system on substantially similar terms.</p> <p><b>Note:</b> 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>
<b>Principle 2</b>	<b>Gas Industry Co's Explanation</b>
<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>
<b>Principle 3</b>	<b>Gas Industry Co's Explanation</b>
<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**

Principle 4	Gas Industry Co's 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><b>Note:</b> 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**

<b>Principle 5</b>	<b>Gas Industry Co's Explanation</b>
<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>

<b>Principle 6</b>	<b>Gas Industry Co's Explanation</b>
<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>

**Pricing including pricing changes<sup>5</sup>**

<b>Principle 7</b>	<b>Gas Industry Co's Explanation</b>
<p>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.</p>	<p>We consider it fair that the Distributor consult with the Retailer on the proposed pricing change.</p>

<b>Principle 8</b>	<b>Gas Industry Co's Explanation</b>
<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>

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<sup>5</sup> 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.

Principle 9	Gas Industry Co's 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**

Principle 10	Gas Industry Co's 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**

Principle 11	Gas Industry Co's 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**

Principle 12	Gas Industry Co's 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>

Principle 13	Gas Industry Co's 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>

Principle 14	Gas Industry Co's Explanation
Information will only be used for the purpose for which it is provided.	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.

**Service interruptions**

Principle 15	Gas Industry Co's Explanation
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.	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.

Principle 16	Gas Industry Co's Explanation
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 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.

**Managing critical contingencies**

Principle 17	Gas Industry Co's Explanation
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.	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. 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.

**Publication of the standard distribution agreement**

<b>Principle 18</b>	<b>Gas Industry Co's Explanation</b>
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.