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Industry solution on Vector's north pipeline still possible – GIC

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Gas Industry Company chief executive Steve Bielby

The gas industry has been given a short window to find a non-regulatory solution to improve competition on Vector's constrained northern pipeline.

The Gas Industry Company says that the lack of available capacity on the pipeline means that end-users are unable to take up competitive offers for their supplies. New analysis shows the issue, which has been known since 2008, is costing end-users up to $4.1 million each year.

However, before the regulator recommends a change to the gas rules, it wants to give participants another chance to improve competition. It is hosting a workshop in Wellington on Thursday to sound out industry proposals.

"We would need something pretty tangible and specific," chief executive Steve Bielby says. "We are approaching that time where we have to bring the conversation to a conclusion one way or another."

Late last year, the Gas Industry Company proposed new rules that would enable competitive offers for end-users' gas supplies by ending incumbent suppliers' grandfathering rights to reserved capacity on the constrained pipeline.

Non-regulatory option

Under that proposal, when an end-user changes retailer, Vector will have to transfer the 'old' retailer's transmission capacity to the 'new' retailer.

The proposal has been backed by major end-users, including Carter Holt Harvey, Fonterra and New Zealand Steel. But it has been opposed by most pipeline owners and retailers, including Vector. They have sought the opportunity to address the issue without regulatory intervention.

"We've called for a conference of the industry players to see whether there is a non-regulatory solution," Bielby says. "Any such proposal would need to be developed in a timely and efficient manner."

If the industry is unable to come to a workable solution, the new rules could be recommended to the Government for sign-off "very quickly", GIC principal advisor Ian Wilson says.

Covec report sees benefit of intervention at $15 million

Vector advised the industry in 2008 that it would be unable to accept increased capacity reservations on its transmission pipeline into and north of Auckland. In late 2009, the Government asked the regulator to look at the issue.

The GIC, in November last year, put forward its proposal to deal with the competition issue. Earlier this month, it released a new document reaffirming its proposed rule changes. The 103-page paper [2] includes a report from economic consultants Covec, presenting further evidence and quantitative analysis of the degree of retail competition on the Vector's northern pipeline.

"We believe that they have demonstrated very clearly that there is a reduction in competition. That is the primary issue for us," Wilson says.

The secondary issue is the magnitude of the effect, Wilson says. "According to their analysis there is certainly a strong net benefit in intervening to correct this."

Covec estimates the value of "deadweight losses" arising from the reduced number of offers from retailers to users is between $1.4 million and $4.1 million each year. The net benefits of the proposed intervention are between $1.1 million and $3.2 million annually, it says. If wealth transfers from retailers to end-users are included in the analysis, the net benefit of intervention increases to between $6.1 million and $14.9 million each year.

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