



MAJOR ELECTRICITY USERS' GROUP

8 July 2010

Ian Wilson
Gas Industry Company
By email to Ian.Wilson@gasindustry.co.nz

Dear Ian

Submission on Options for Vector Transmission Capacity

This is a submission by the Major Electricity Users' Group (MEUG) on the Gas Industry Company consultation paper "Options for Vector Transmission Capacity" published May 2010¹. Comments on the questions in the paper follow:

Question	Comment
Q1. Do you agree the objectives identified in section 5 are appropriate criteria for evaluating transmission capacity options?	<p>Yes plus add:</p> <ul style="list-style-type: none">▪ Ensure no excess monopoly pricing; and▪ Ensure no barriers to entry caused by Vector being both a monopoly transporter and as a wholesaler and retailer of gas in competition with other users of the transport service. <p>The above objectives would ensure better alignment with the objectives of Part 4 of the Commerce Act. It is important the risk of monopoly behaviour is explicitly recognised when considering options because it is clear from the consultation paper that such risks exist. In particular there is a lack of transparency that could allow exercise of monopoly power, eg</p> <ul style="list-style-type: none">▪ "Vector does not publish its capacity request process"²,▪ "Without information on the level of queued capacity, it is impossible to know whether contract carriage investment would be justified."³; and▪ The consultation paper notes a shortage of

¹ Refer <http://www.gasindustry.co.nz/work-programme/transmission-pipeline-capacity?tab=1733>

² Page 12, paragraph 3

³ Page 23, last paragraph

Question	Comment
	<p>commercial capacity has pre-empted a physical capacity shortage⁴. There is a lack of transparency to test if this has actually occurred. If correct, then it would be a less efficient use of resources and suite of contractual rights and obligations than could be achieved.</p> <p>The qualitative analysis of the options is a good first step. It should be possible to quantify, or at least give a range of possible NPV, in the next analysis of the options compared to the status quo. Only by quantifying the benefits and costs can an objective assessment of the relative weighting of the "capacity objectives" be made. For example we expect the NPV range for efficient investment and facilitating competition for the best options will far outweigh transition costs. In the qualitative assessment those factors are all given equal weighting and that seems to us to be an erroneous conclusion.</p>
Q2. Do you agree with the evaluation of the current capacity arrangements?	An evaluation of options must be against a stated benchmark. It may be better to treat the current arrangements as the benchmark (ie status quo if no changes are made, often termed the "counterfactual") against which benefits and costs of the other options can be considered.
Q3. Do you agree with the evaluation of the contract carriage option?	Assumes no secondary market will develop. This seems harsh. We would expect a secondary market would develop. MEUG does not believe a pure contract carriage option is feasible.
Q4. Do you agree with the evaluation of the common carriage option?	A pure common carriage market seems infeasible but is a useful straw man to help assess the other options.
Q5. Do you agree with the evaluation of the current hybrid option?	To the extent the hybrid option is trying to pick the best features of a contract carriage and common carriage regime then seems reasonable it will have a better score than the status quo.
Q6. Do you agree with the evaluation of the MDL carriage option?	A modified current MDL approach could also be considered one of a number of hybrid options; therefore overall conclusion that better than status quo seems reasonable.
Q7. Do you agree with the evaluation of the incremental change option?	The assessment this is likely to be more welfare enhancing compared to the status quo seems reasonable as the intention is to advance economic welfare improving features as long as those cover implementation costs.
Q8. Are there other options you think should be considered and evaluated?	There are probably a range of variations within the boundary covered by a modified current MDL approach, hybrid option and incremental change option. Neither a pure common carriage (no contracts) nor a pure contract carriage approach seems feasible.

⁴ Page 23, first paragraph

Question	Comment
	<p>Which ever overall open access framework is finally decided, it appears to MEUG that all options will benefit from Vector being more transparent on how the open access regime is operated and provides the market daily through to longer-term detailed forecasts of gas demand and supply. The need for greater transparency needs to be urgently considered by the GIC ahead of the work by the Commerce Commission on information disclosure because the latter has a much longer time-frame.</p> <p>A challenge will be to retain the flexibility of common carriage for new entrants and peaking power stations along with the longer-term stability required of large base load gas users'. Detailed consideration of this trade off will require more detailed analysis of different contract options. For example it's likely that a different suite of contracts will be required than those Vector currently offer. The policy question is whether the incentive on Vector to offer services and contracts aligns with that expected were they in a notionally competitive environment. If not, then more prescription from the GIC will need to be considered.</p>
<p>Q9. Do you agree that only the hybrid and incremental change options should be considered further?</p>	<p>Plus other variants as the investigation proceeds. See also the answer to question 8 above.</p>
<p>Q10. Do you agree with the proposed next steps?</p>	<p>It should be possible to complete an analysis of submissions before December. We suggest an end of August date followed by a workshop to consider that analysis. This will provide another forum to gather more detailed feedback on more refined options, including more details on new contracts and information disclosure requirements, ahead of the December deadline to have a Statement of Proposal tabled with the Minister.</p>

We look forward to viewing the GIC analysis of submissions.

Yours sincerely



Ralph Matthes
Executive Director