

Bridge Commitments: Progress Report

30 June 2012

Introduction

This paper presents Gas Industry Co's third progress report and appraisal of the Bridge Commitments, a package of measures to address perceived short-term competition issues on the North Pipeline. The Bridge Commitments were agreed by Contact, Energy Direct, Genesis, Mighty River Power (MRP), Nova, OnGas and Vector in August of last year.

This report presents the assessment of progress against each measure in table form, along with the assessments made in the earlier reports.

A milestone was reached this past quarter: the GTX recorded its first matched bid. Gas Industry Co sees this event as an encouraging sign of the usefulness of the GTX and of the willingness of Shippers to engage in mutually agreeable capacity transfers. Gas Industry Co urges the industry to use and support the GTX. In particular, we urge the three Shippers who have not yet signed up to join as participants of the GTX.

Another milestone is the release of the Panel of Expert Adviser's (PEA's) paper, *Review of Transmission Access and Capacity Pricing: Advice from the Panel of Expert Advisers*. Gas Industry Co thanks the PEA and its advisers for their hard work and dedication in reaching this point, and we urge industry participants to consider the report and its recommendations and to provide us with submissions. The deadline for submissions is 24 August.

Also in this quarter, we note the progress Vector has made in its pipeline capacity determination process.

In the table below, each of the seven Bridge Commitments is listed in abridged form in the first column (the full text of the Bridge Commitments can be found in Appendix 1). The second and third columns recap the progress reported in February and May; and the fourth column represents the current status of each of the Commitments.

A background note on how the Bridge Commitments were developed is in Appendix 2. Further background on the Bridge Commitments can be found on Gas Industry Co's website at <http://gasindustry.co.nz/work-programme/transmission-pipeline-capacity/short-term#fragment-2113>

Commitment	Status as at December 2011	Status as at April 2012	Current status (June 2012)
<p>1. <i>as a Shipper...</i></p> <p>a. <i>ensure that transmission capacity (capacity) is available to the preferred retailer...</i></p> <p>b. <i>provide that capacity and quantity information, ...</i></p> <p>c. <i>provide that information in paragraph 1(b) to the Gas Industry Company Limited (GIC), ...</i></p>	<p>Since start of Bridge Commitments:</p> <ul style="list-style-type: none"> • 2 capacity offers by incumbents; neither accepted • 4 ToU customers on the Northern pipeline switched supplier 	<p>Since start of Bridge Commitments:</p> <ul style="list-style-type: none"> • 4 capacity offers by incumbents; none accepted • amount of capacity offered has been for 75-80% of the gas consumers' Optimised Maximum Daily Quantity • 7 ToU customers on the Northern pipeline switched supplier; only one was subject of capacity offer 	<p>There has been one capacity offer since the last progress report, also for 75% of the consumer's Optimised Maximum Daily Quantity. This offer has been accepted.</p> <p>Gas Industry Co understands that parties are in the process of formalising agreements for this consumer, including the transfer of capacity. When this is done, the customer switch will take place on the registry.</p> <p>One additional ToU customer on the Northern pipeline has switched since the last report, according to the registry. Together with the switch in progress discussed above, this means there have been 9 switches of ToU customers since the start of the Bridge Commitments in August 2011.</p> <p>As a comparison, there were 12 switches of ToU customers on the Northern pipeline from August 2010 to June 2011 (excluding transfers of E-Gas customers); and 11</p>

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			switches from August 2009 to June 2010.
<p>2. <i>to ensure that within ten business days after the completion of the tender process initiated by the end user or Shipper, the information in paragraph 1(b) will be disclosed...</i></p>	<p>Information published on OATIS</p>	<p>Information published on OATIS</p>	<p>Information now available on the GTX (http://thegtx.co.nz/bid-book/trade), which provides a platform where Shippers themselves can post and accept offers.</p> <p>The GTX has been updated to include all the offers that Gas Industry Co is aware have been made under Commitment #1. Note that a number of capacity offers have referred to customers with multiple sites, and each site appears as a separate offer on the GTX.</p>
<p>3. <i>to negotiate, and where practicable agree, on a set of reasonable commercial terms to govern the transfer of capacity under Supplementary Agreements...</i></p>	<p>Contact Energy, MRP, and Vector Transmission have been negotiating to remove restrictions that prevent power stations trading capacity under supplementary agreements</p> <p>After three months of negotiating, the parties report that they are close to concluding an amendment that</p>	<p>After six months of negotiating, the parties have to date been unable to agree on a set of reasonable commercial terms that will allow spare capacity to be on-sold. While we understand there are some significant unexpected complexities, we are disappointed that agreement has not yet been reached. However,</p>	<p>Gas Industry Co understands that in the case of one generator, the changes to the supplementary agreements have been agreed in principle with Vector, and the documentation is awaiting Board approval before it can be signed.</p> <p>We also understand that no interest has yet been expressed by potential users of power station capacity</p>

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	will allow spare capacity to be on-sold	we also understand that there has not been any demand-side interest in power station capacity; if there had been, it might have expedited the parties' work on this issue.	
<p><i>4. to disclose to the GIC such information as the GIC reasonably requires to enable it to understand and assess the extent of the Northern Pipeline capacity constraint, the efficiency of the current capacity allocation mechanism and the need for asset investment...</i></p>		<p>In February, Gas Industry Co received daily capacity reservations and delivery information for all Shippers (as well as Greymouth Gas, which is not a signatory to the Bridge Commitments). Despite the Bridge Commitments only applying to the North Pipeline, we requested and received information relating to all gas gates, as such information is an important input into the supply/demand study (one of the Information Projects under the GTIP).</p>	<p>No further information requests have been made.</p> <p>Gas Industry Co continues to believe this provision of information is a good precedent for the future, both in terms of the way further information disclosure can improve market outcomes and the way industry can voluntarily aid in such processes.</p>

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<p>5. to work with GIC on a review of the Northern Pipeline capacity constraint, with the results made public and presented in an open forum by a target date of 1 December 2011.</p>	<p>In December 2011, Vector released the report, <i>North Pipeline Review as at 1 October 2011</i>. It includes:</p> <ul style="list-style-type: none"> • a summary of the way in which Shippers obtain Reserved Capacity; • a record of Shippers' transmission capacity entitlements over recent years; • use of firm transmission capacity (ie, offtake), by retail and power generation Shippers; and • pipeline performance during August 2011 peak week. <p>In late 2011, Vector also commenced a review of the North Pipeline capacity – the Capacity Determination Project – and sought feedback from</p>		<p>In June, Vector released a summary of submissions to its discussion papers on physical model inputs and Vector as a reasonable and prudent operator. It also released final versions of those papers.</p> <p>Vector advises that its next steps in this process are:</p> <ul style="list-style-type: none"> • Provide a further update on the capacity consultation process (expected July 2012) • Release the anatomy of capacity determinations, including systems security criteria, for consultation, prior to capacity determinations for each Vector pipeline; followed by • Pipeline reviews for each segment.

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	interested parties on the inputs for its modelling process.		
<p><i>6. to work together to develop a platform (known as a Bulletin Board) to facilitate the open and transparent trading of capacity between willing buyers and sellers, by a target date of 1 December 2011.</i></p>	<p>Bulletin board design completed by iPredict and Vector</p>	<p>Bulletin Board operational.</p> <p>5 of 8 Shippers joined as participants</p> <p>No activity on the site.</p>	<p>There has been a matched offer on the GTX, a milestone that Gas Industry Co takes as an encouraging sign of the potential effectiveness of the GTX.</p> <p>However, the GTX still has only 5 of 8 eligible Shippers signed up as participants, and few offers have been posted on the site.</p> <p>Gas Industry urges Shippers to make use of the GTX. We also encourage end users wishing to procure more capacity to ask their Shippers to post bids on their behalf.</p>
<p><i>7. to participate in a project with the objective of developing longer term market solutions; establishing the current need for gas transmission investment; and developing an effective pathway for gas transmission investment to take place, including correctly signalling</i></p>	<p>Gas Transmission Investment Programme (GTIP) developed.</p> <p>Panel of Expert Advisers (PEA) and Panel of Strategic Advisers (PSA) established.</p>	<p>The PEA has been making good progress in its first key deliverable, an assessment of current transmission access and capacity pricing arrangements and identification of preferred options.</p>	<p>The PEA's first milestone, a paper on transmission access and pricing, has been released for public consultation. Gas Industry Co urges stakeholders to submit their views on this paper, which will help guide the PEA in its subsequent work.</p> <p>In May, Gas Industry Co hosted an industry</p>

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<i>the price of gas transmission capacity.</i>			workshop that outlined the PEA's work to that point. The workshop also included a session on the gas supply/demand study that Gas Industry Co has commissioned from Concept Consulting.

Appendix 1: Bridge Commitments

4 August 2011

Commitments by Northern Pipeline Shippers and Vector Transmission

From:

- Vector Gas Limited
- Contact Energy Limited
- Energy Direct NZ Limited
- Genesis Power Limited
- Mighty River Power Limited
- Nova Gas Limited
- On Gas Limited

We each agree:

1. as a Shipper supplying a large end user (end user) who obtains gas from the Northern Pipeline, where the end user tenders for future supply to:
 - a. ensure that transmission capacity (capacity) is available to the preferred retailer of the end user of gas, at a price that reasonably reflects the value of that existing capacity to the Shipper, and at a quantity that will reflect the end user's demand, to the extent practicable;
 - b. provide that capacity price and quantity information, at the end user's or another Shipper's request, within five business days, to allow competing bidders to incorporate it into their supply proposals; and
 - c. provide the information in paragraph 1(b) to the Gas Industry Company Limited (GIC), together with the name of the end user, relevant ICP number and any other material terms of the capacity transfer offer at the time they are made to assist the GIC in assessing the efficacy of the arrangement set out in this paragraph.
2. to ensure that within ten business days after the completion of the tender process initiated by the end user or Shipper, the information in paragraph 1(b) will be disclosed on the public version of the Vector Transmission Open Access Transmission Information System (OATIS).

3. to negotiate, and where practicable agree on a set of reasonable commercial terms to govern the transfer of capacity under Supplementary Agreements and Non-Code Shipper transmission services agreements (including where relevant reasonable amendments to Supplementary Agreements and Non-Code Shipper transmission services agreements), by a target date of 1 December 2011.
4. to disclose to the GIC such information as the GIC reasonably requires to enable it to understand and assess the extent of the Northern Pipeline capacity constraint, the efficiency of the current capacity allocation mechanism and the need for asset investment, provided the GIC only uses the information for the purposes set out in this paragraph and keeps confidential any information identified by a discloser as confidential (including not disclosing that information to any competitor).
5. to work with GIC on a review of the Northern Pipeline capacity constraint, with the results made public and presented in an open forum by a target date of 1 December 2011.
6. to work together to develop a platform (known as a Bulletin Board) to facilitate the open and transparent trading of capacity between willing buyers and sellers, by a target date of 1 December 2011.
7. to participate in a project with the objective of developing longer term market solutions; establishing the current need for gas transmission investment; and developing an effective pathway for gas transmission investment to take place, including correctly signalling the price of gas transmission capacity.

Appendix 2: Background on the Bridge Commitments

Following a Gas Industry Co proposal for regulation, Vector Transmission and the majority of shippers ('Shippers') on its North Pipeline (Contact, Energy Direct, Genesis, Mighty River Power (MRP), Nova and OnGas) committed to a package of measures ('Bridge Commitments') to address the perceived short-term competition issues large end users have been facing. This initiative is an industry response to Gas Industry Co concerns that, in a constrained pipeline situation, capacity can be retained by incumbent Shippers because their rights to capacity are 'grandfathered'. The consequence is that in response to tenders, large end users may only receive a bid for gas supply from the incumbent Shipper (or a few others).

The Bridge Commitments were agreed amongst Shippers and Vector in August 2011, and comprise seven elements, including a commitment by Shippers to make capacity available to other Shippers 'at a price that reasonably reflects the value of that existing capacity to the Shipper, and at a quantity that will reflect the end user's demand, to the extent practicable'. The package of commitments creates a bridge to allow the industry to discuss how the transmission access and pricing arrangements can be developed to improve the economic allocation of capacity on the Pipeline.

Shortly after being agreed, Gas Industry Co assessed¹ the Bridge Commitments and concluded that they should:

- ensure existing large end users on the North Pipeline have an effective choice of supplier in the short term, by facilitating the transfer of capacity amongst Shippers;
- help to facilitate development of longer term access arrangements and investment; and
- materially change the market.

As a result of these conclusions, Gas Industry Co determined that intervention by way of Rules was not justified at that time. In its assessment paper, Gas Industry Co also noted that it would continuously monitor the effectiveness of the Bridge Commitments and update industry if anything occurred that might change its assessment.

¹ http://gasindustry.co.nz/sites/default/files/u254/retail_competition_when_transmission_capacity_is_constrained_-_reevaluation_of_constrained_pipeline_rules_option_171755.12_1.pdf