

Bridge Commitments: Progress Report

For the quarter ending 30 September 2012

This paper presents Gas Industry Co's fourth 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.

The Bridge Commitments have been in effect now for over a year. The Gas Transmission Capacity Trading site (GTX; available at <http://thegtx.co.nz/>) has been developed and put into operation. In the period, there have been 12 offers of capacity and two capacity transfers under Commitment 1 (capacity offers by incumbent Shippers). As well, there has been good progress on the other Commitments and on the suite of market projects and information projects instituted under Gas Industry Co's wider Gas Transmission Investment Programme (GTIP).

Market circumstances regarding transmission capacity on the North pipeline have also been changing, and recent reporting has helped to clarify some issues. Whereas a year ago, there was a feeling among some in the gas market that the solution to the capacity shortages lay in investment in a new pipeline, now there is a better understanding that the physical capacity of the pipeline is rarely fully utilised. A draft supply/demand study¹ commissioned by Gas Industry Co and shortly to be finalised reinforces this perspective. In particular, the study finds that greater interruptibility of demand on the North pipeline (to manage demand peaks) may allow that pipeline to accommodate foreseeable demand growth for the next 15 years.

Gas Industry Co is also aware that contract capacity reservations in the new gas year commencing 1 October 2012 are lower than the previous year. In particular, Gas Industry Co is aware that the amount of firm capacity reserved by one of the thermal generators has decreased from previous years. In addition, Vector transmission has advised that there was no congestion during the winter 2012 period. Nevertheless, the focus of the GTIP, and especially the work of the Panel of Expert Advisers, remains on the efficient use of existing capacity, including measures for managing future congestion.

At the same time, Gas Industry Co is aware of remaining concerns that the Bridge Commitments, in particular Commitment 1, could be more effective in relation to competitive tender processes on the North Pipeline.

Gas Industry Co continues to encourage signatories and other market participants to obtain the best benefits for consumers from the Bridge Commitments while we progress longer-term solutions through the GTIP.

¹ Available on the Gas industry Co website at <http://gasindustry.co.nz/work-programme/information-projects/gas-supply-and-demand-scenarios-2012-2027-0>

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 column contains an assessment of progress against 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	Current status (September 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 the start of the Bridge Commitments, there have been capacity offers in respect of 12 gas customer sites.</p> <p>Two of these offers have resulted in the transfer of capacity, which has enabled those customer sites to switch to an alternate retailer.</p> <p>Gas Industry Co is also aware that some potential transfers – and related customer switching – did not occur, apparently because of the price that the selling retailer placed upon the capacity offer.</p> <p>In the past year, there have been 12 large gas customers (with time of use metering) on the North pipeline that have switched retailer. Two of these switches resulted from the capacity transfers noted above; the other 10 switches apparently did not require a capacity transfer. As a comparison, there were 16 such switches from October 2010 to September 2011.</p>
<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 on capacity offers is 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.</p>

Commitment	Current status (September 2012)
<p><i>3. 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>Gas Industry Co understands that a new Supplementary Agreement has been signed between Contact Energy and Vector, which will allow the transfer of supplementary capacity. A similar agreement with Mighty River Power is awaiting final approval.</p> <p>Gas Industry Co also understands that Vector has amended its standard Supplementary Agreement to allow for the transfer of capacity. This means that future such agreements will allow capacity trading.</p> <p>On a related note, Gas Industry Co is aware that the amount of capacity reserved by the thermal generators has declined from previous years.</p>
<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>

Commitment	Current status (September 2012)
<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>.</p> <p>In late 2011, Vector also commenced a review of the North Pipeline capacity. In June of this year, 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>Gas Industry Co understands that Vector will shortly release for consultation a draft capacity determination for the North Pipeline and supporting documents.</p>
<p>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.</p>	<p>The GTX has been operational since May. Capacity offers are discussed under item 1 above.</p> <p>Two Shippers have joined the GTX in the past quarter as participants: Genesis Energy and Mighty River Power. There are now a total of seven Vector Shippers who are also participants on the GTX.</p>
<p>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.</p>	<p>The first report by the Panel of Expert Advisers (PEA), <i>Review of Transmission Access and Capacity Pricing</i>, was issued for consultation in July. Eleven submissions were received on the report, from end users, pipeline owners, and gas retailers. The PEA is considering the views of stakeholders and developing its future work programme to reflect key aspects.</p> <p>In September, Gas Industry Co released a draft report, <i>Gas Supply and Demand Scenarios 2012 - 2027</i>, for public comment. The report will be finalised in the coming quarter.</p>

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 assessed² 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.

² 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