



# Gas Governance Issues in Distribution: Issues Paper Analysis of Submissions

December 2010







## **About Gas Industry Co.**

Gas Industry Co was formed to be the co-regulator under the Gas Act.

Its role is to:

- recommend arrangements, including rules and regulations where appropriate, which improve:
  - the operation of gas markets;
  - access to infrastructure; and
  - consumer outcomes;
- administer, oversee compliance with, and review such arrangements; and
- report regularly to the Minister of Energy and Resources on the performance and present state of the New Zealand gas industry, and the achievement of the Government's policy objectives for the gas sector.

## **Author**

Ian Wilson

Melanie Strokes



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# 1

## Introduction

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### 1.1 Purpose

In this paper Gas Industry Company (Gas Industry Co) analyses and responds to submissions on its *Gas Governance Issues in Distribution: Issues Paper* (the Issues Paper)<sup>1</sup>.

### 1.2 Overview of the Issues Paper

Gas Industry Co released the Issues Paper for consultation in September 2010. The paper assessed whether issues associated with the distribution of natural gas warrant resolution through gas governance arrangements. Gas Industry Co issued the paper with another on gas quality issues, *Gas Governance Issues in Quality: Issues Paper*<sup>2</sup>, because of areas of overlap.

The Issues Paper proposed a regulatory objective and considered regulatory arrangements relevant to gas distribution. It discussed potential issues and assessed them against the regulatory objective.

Gas Industry Co concluded there are no issues that warrant us recommending intervention. However, we considered the current arrangements could be improved. We suggested two approaches:

- regular status reporting; and
- the development of high-level benchmarks (principles) for distribution contracts (some examples of possible benchmarks were given at the end of the paper).

The Issues Paper invited submissions from industry participants. We sought feedback on the various matters discussed in the paper including the two approaches to improving current arrangements.

### 1.3 Submissions received

Gas Industry Co received eight submissions on the Issues Paper. The submitters were:

- Contact Energy Limited (Contact);
- GasNet Limited (GasNet);

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<sup>1</sup> The paper is available here:

[http://www.gasindustry.co.nz/sites/default/files/u180/Gas\\_governance\\_Issues\\_in\\_gas\\_distribution\\_for\\_website\\_153172\\_0.pdf](http://www.gasindustry.co.nz/sites/default/files/u180/Gas_governance_Issues_in_gas_distribution_for_website_153172_0.pdf)

<sup>2</sup> The paper is available here: [http://www.gasindustry.co.nz/sites/default/files/u180/Gas\\_Governance\\_Issues\\_in\\_Gas\\_Quality\\_153573\\_2.pdf](http://www.gasindustry.co.nz/sites/default/files/u180/Gas_Governance_Issues_in_Gas_Quality_153573_2.pdf)

- Genesis Energy Limited (Genesis);
- Greymouth Gas Limited (Greymouth);
- Mighty River Power Limited (MRP);
- Nova Energy (Nova);
- Powerco Limited (Powerco); and
- Vector Limited (Vector).

# 2

## Discussion of matters raised in submissions: description of issues

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### 2.1 Questions asked in the Issues Paper

In the Issues Paper Gas Industry Co asked submitters to respond to four questions about the description of distribution-related issues. The four questions were:

- Do you agree with the proposed regulatory objective? If you disagree please explain why and/or provide an alternative. (Q1)
- Have we identified all relevant characteristics of distribution? If not, please suggest what other features you believe to be relevant, and explain why they are relevant. (Q2)
- Have we identified all regulatory arrangements that are relevant to the analysis of gas distribution? If not, please suggest what other regulatory arrangements are relevant, and explain why they are relevant. (Q3)
- Have we identified all issues relevant to the analysis of gas distribution? If not, please suggest what other issues are relevant, and explain why they are relevant. (Q4)

### 2.2 The regulatory objective

#### Reason for a regulatory objective

One submitter questions why Gas Industry Co has stated a regulatory objective at this early stage of the inquiry into distribution issues. It believes that doing so risks closing off potential options. Also, the Gas Act does not require Gas Industry Co to describe a regulatory objective. This submitter thinks the current focus should be on identifying whether there are matters of regulatory concern. A regulatory objective would be better developed at the options evaluation stage, if the inquiry were to proceed that far.

Gas Industry Co finds it helpful to establish a regulatory objective at an early stage because it requires us to consider and state the significance of the Gas Act objectives in the context of the topic being considered. This opens our views to debate, allowing submitters an opportunity to say whether they agree or not. In this instance, submitters raised several matters that we found challenging and

instructive. These matters are discussed below and we hope our responses demonstrate how helpful the regulatory objective, and feedback on it, can be.

In formulating a regulatory objective Gas Industry Co has not closed our mind to other potential options, we have an open mind to rescoping or reconsidering the regulatory objective throughout the policy phase. However, in our experience, proposing a regulatory objective allows our problem definition to be transparent and helps focus consultation on the issues.

### **Gas Industry Co's mandate to consider 'safety'**

One submitter is concerned the reference to 'safety' in the regulatory objective risks a conflict between Gas Industry Co and the Gas Association of New Zealand (GANZ). Only one organisation should be responsible for gas safety.

Gas Industry Co notes the Gas Act gives us an explicit mandate to take safety into account when reviewing and developing gas governance arrangements (s 43ZN). We note also that the statutory body primarily responsible for safety in the industry is the Energy Safety Services (ESS). GANZ is an association representing several companies and other gas-related bodies on a range of technical and safety issues, but has no statutory responsibility to ensure safe outcomes. That said, Gas Industry Co will consider all practicable options, including the role for industry bodies (such as GANZ).

### **Explanation of the regulatory objective**

Submitters suggest three additions to the explanation of the regulatory objective. These suggestions are:

- the objective should include the requirement for distribution agreements to be consistent with, or not to conflict with, Gas Industry Co's benchmarks for retail contracts;
- Gas Industry Co also takes into account the Government's Energy Strategy and Draft Energy Efficiency and Conservation Strategy; and
- the fourth aspect of 'safety and reliability' should be 'Supply Pressure: Maintaining pressures within stated specified ranges'.

The regulatory objective proposed in the paper applies to a wide range of distribution arrangements. We agree the benchmarks for retail and any proposed benchmarks for distribution agreements should be consistent. Also, Gas Industry Co will consult on any draft benchmarks we propose, allowing participants the opportunity to alert us to any such conflicts.

Gas Industry Co agrees that having regard for Government energy strategies when reviewing gas industry arrangements is important. However, this applies to all arrangements, and we think it better to keep the regulatory objective as specific to the topic under consideration as is reasonable.

We also agree with the suggested change to the description of 'safety and reliability'.

## **2.3 Characteristics of distribution**

### **The need for regulation**

One submitter favours regulation requiring retailers to pass through to end users any cost reductions from network and/or metering services.

Gas Industry Co responds that we have no explicit role under the Gas Act in relation to pricing methodologies for retailers or distributors. We also note that retail prices will adjust to reflect network prices, providing the retail market is competitive.

Another submitter is strongly of the view that further regulation of distribution networks (that is, regulation of distribution contracts) will provide no further benefits. The submitter describes the regulatory control that distribution networks will be subject to when the Commerce Commission completes the price-quality regime. It also notes the lack of significant complaints regarding distribution. According to this submitter, further regulation is therefore unnecessary and could impede contracting innovation in the sector—contracting issues in distribution are best resolved by parties with commercial interests. The submitter considers the Issues Paper fails to recognise that interested parties need incentives to take the risk of investing and operating gas distribution networks.

We agree that the consideration of the identified distribution issues indicate that, currently, the case for regulation is weak. However, the submissions received by some retailers and the number of out of date distribution agreements in the market suggest that contracting innovation alone is unlikely to resolve the issues. We consider there are improvements that can be made to ensure arrangements better meet the regulatory objective. We think such improvements can be made through voluntary distribution benchmarks. These improvements can be completed independently of the Commission's work.

### **Transmission and distribution arrangements**

One submitter thinks the description of distribution arrangements does not adequately consider the interdependency of transmission and distribution agreements. The submitter suggests interconnection agreements between the owners of transmission systems and distribution networks should treat the characteristics that are linked to both transmission and distribution compatibly and consistently. Examples of these characteristics are engineering standards, metering arrangements, title tracking and allocation, and balancing.

We agree it would be helpful for interconnection agreements to clarify the treatment of characteristics with some interdependence between transmission and distribution systems. The benchmarks discussed in section 4 should identify these characteristics and indicate how parties responsible for them can meet their responsibilities.

## **Retail and distribution arrangements**

Another submitter considers the Issues Paper did not adequately discuss terms and conditions between retailers and distributors. Due to the lack of competition, there is a limited opportunity for retailers to negotiate distribution terms regarding matters such as, for example, disconnection and reconnection, and faults information and notification.

Gas Industry Co acknowledges some issues were not identified or fully investigated in the Issues Paper. We will review these issues when considering what benchmarks are appropriate for distribution agreements.

## **Gas measurement services**

One submitter made several comments in relation to metering arrangements.

- Distributors and Gas Measurement System (GMS) operators do not have interconnection agreements.
- This submitter's experience has been that end users no longer switch to a new GMS provider when switching retailer.
- It is unaware of any open access network operator specifying a monopoly GMS provider.
- GasNet does not provide GMS services outside its network areas (contrary to what the paper states).

On the first point we agree. On the second point Gas Industry Co knows of an instance where an end user's retailer removed its GMS when the end user decided to be supplied by a new retailer. This caused some inconvenience for the end user. However, such behaviour can be expected where services are contestable.

We accept the third point, and regret that our paper was misleading on this matter. Although GasNet is the only GMS operator active on its network, others are free to offer metering services. We understand the new GasNet Use of System Agreement (recently consulted on with its retailers, but still in draft) is modular—it has separate sections for Network Services and GMS Services, allowing retailers to take either or both services from GasNet.

On the final point we have confirmed with GasNet that it does have GMSs on networks owned by others.

## **Competition**

Two submitters commented that open access gas distribution networks compete with electricity networks, and bottled and reticulated LPG.

Another submitter commented on Gas Industry Co's statement that there are three companies offering open access distribution services. The submitter believes this is an over-simplification. The ex-

NGC network and United Networks, both owned and operated by Vector, should be considered as separate companies given the lack of synergies this relationship brings to the industry.

Gas Industry Co notes these views.

## 2.4 Regulatory arrangements

### Additional regulatory arrangements to consider

Four submitters suggest the following additional regulatory arrangements are relevant to the analysis of gas distribution, in addition to those identified in the Issues Paper.

- The Gas Governance (Critical Contingency Management) Regulations 2008. These regulations have an indirect affect on the operations of the network and GMS operators.
- The Gas (Switching Arrangements) Rules 2008.
- The Gas (Downstream Reconciliation) Rules 2008.
- The Gas Governance (Compliance) Regulations 2008.
- The New Zealand Pipeline Access Code 1998. This (voluntary) agreement had significant support from the major parties in the industry and most of the principles still apply.
- The Consumer Guarantees Act 1993. This Act requires gas supplied to residential end users to be fit for purpose. The Act therefore has the effect of being an all-encompassing regime covering gas quality, price, and safety.
- The Gas (Statistics) Regulations 1997.
- Pending regulations, which may have significant effects (for example, the Commerce Commission's price-quality regime and associated information disclosure requirements, which are likely to increase the amount of non-financial information available).

Gas Industry Co agrees the above arrangements are important considerations when reviewing distribution arrangements.

### Commerce Act 1986

One submitter considers the Issues Paper fails to emphasise key provisions of the Commerce Act that have significant implications for the regulation of gas distribution. In particular, section 55F(2) effectively acts as a CPI price cap on transmission and distribution businesses up to 2012.

Gas Industry Co believes sections 5.3 and 5.4 of the Issues Paper did recognise the importance of the Commerce Act, and in particular Part 4 (Regulated Goods or Services) to pipeline businesses. We agree we did not focus on the specific price cap provisions.

The submitter also disagrees with Gas Industry Co's statement that reliability and quality standards will be reporting standards and not measurable targets under the Commerce Act regime. It thinks the regime is likely to include measurable targets because of provisions in the Act and previous indications of the Commission's preference.

This submitter also comments on another statement in the Issues Paper that the Commerce Commission 'does not commit to any particular set of standards but it makes clear the regime will set in place objective quality standards with defined and measurable indicators'. The two statements together make it unclear what Gas Industry Co thinks the regime will be.

In relation to quality standards, we suggested they would be benchmarks for reporting, rather than required standards. We meant they would be measurable targets, but failing to meet those targets would have no direct consequences.

We noted that the Commerce Commission's paper *Initial Default Price-Quality Path for Gas Pipeline Businesses' Issues Paper*, 12 April 2010, did not commit to any particular set of standards. But we acknowledged that such standards would be set eventually and comprise part of the final regime. We regret we were unclear.

The Commerce Commission reviewed the Issues Paper before publication.

## **2.5 Identification of relevant issues**

### **Standard interconnection agreement**

Two submitters believe a standard interconnection agreement for use between the network owners and transmission owners should be developed. This is especially so because private networks are not subject to the same operational and compliance regime as other networks. One of these submitters also thinks distribution and GMS owners should also have an interconnection agreement.

A third submitter comments on issues at transmission system/distribution network interconnection points. Problems arise between transmission systems owners (TSOs), network system owners (NSOs), and users of both systems. However, the issues are poorly dealt with because of the lack of public interconnection agreements at Vector transmission system delivery points; and the failure of industry participants to recognise how some regulations that apply to distribution networks affect transmission system arrangements.

Gas Industry Co agrees published interconnection agreements at interconnection points would improve transparency and help to provide a better understanding of how the arrangements function. We will actively encourage the publication of agreements. We also agree it is important industry participants understand how regulatory obligations are discharged by all parties along the supply chain.

### **Disconnection charges**

Four submitters raise the issue of disconnection charges. Two consider distributors should be able to continue to charge retailers when customers have vacated properties. Distributors have significant fixed sunk costs to recover.

In contrast, another submitter believes this arrangement pushes up prices to end users. It noted disappointment with the lack of progress on these issues, specifically the fixed daily fees charged by the network and GMS operators. To provide relief from the daily charges, a retailer must physically disconnect gas supply. The average disconnection charge is over \$100 (with a similar reconnection charge). Retailers are therefore faced with the option of continuing to pay fixed daily charges or incurring the cost of disconnecting gas supply. These costs can be recovered only through tariffs, pushing prices up further. This submitter also notes a new requirement in the Gas (Safety and Measurement) Regulations 2010 for retailers to certify reconnections when a gas supply has been disconnected for more than six months. This is a clear disincentive for customers to reconnect to gas.

The third submitter considers the current practice reflects retailers' desire to avoid cost and suggests a user-pays approach may be fairer for end users. We also acknowledge that some may consider that Gas Industry Co should not be considering prices or charges.

Gas Industry Co acknowledges the differing views. We consider it is reasonable that network owners' charges reflect their costs. In particular, it is reasonable for fixed costs to be recovered through fixed charges. However, we acknowledge that retailers generally prefer fully variable charges because they believe they are less likely to discourage customers from using gas, allow gas to compete on a more equal footing with electricity, and avoid unnecessary disconnections and reconnections.

This is a commercial matter. We would be surprised if retailers could not lobby network owners to offer a fully variable pricing option in addition to their current tariffs. However, network owners would wish to pitch the fully variable charge at a level that generates about the same revenue from seasonal end users as current tariffs. So there is unlikely to be a significant benefit to retailers, and prices would be less reflective of costs.

Although the current arrangements are inconvenient for retailers, we believe that cost-reflective prices provide the best market outcomes.

### **Effect of a critical contingency on users on a private network**

One submitter raises the issue of curtailment under critical contingency. The submitter comments that the definition of gas distributor excludes private networks. So, the question arises of whether curtailment under a critical contingency would include or exclude end users connected to a private network.

Gas Industry Co notes that under the Gas Governance (Critical Contingency Management) Regulations 2008, the Critical Contingency Operator directs TSOs to curtail load; and TSOs, in turn, instruct retailers. Thus, it is retailers who issue curtailment instructions to their customers. So, although the owner of a private network will not be a 'distributor' under the regulations, it is likely to be a retailer. Alternatively, the private network would be a 'consumer installation' under the regulations, and the owner would be a 'large user'. In that circumstance, instead of each end user on the private network having its own load-shedding classification, the entire network would have a single classification. In

either case, we believe that curtailment under a critical contingency would apply to private networks supplied from a 'transmission system'

## Other issues

Other issues identified by submitters are listed in Table 1.

**Table 1 'Other' relevant issues**

Issue	Submitter's comments	Gas Industry Co response
GMS service levels	GMS service levels would be enhanced if they were a separate competitive activity rather than bundled with distribution.	Our inquiries indicate that GMS services provided by distributors are very close to being completely unbundled.
File formats	Information exchange file formats for billing information and reconciliation lack efficiency and consistency.	We will make further inquiries about the issue. We had understood this was a technical matter being dealt with by the GANZ. However, if this is not so we will consider whether Gas Industry Co should convene a working group to consider how problems can be resolved.
Definition of terms	The absence of industry-agreed definitions of terms (such as temporary disconnection, transitional disconnection, and relocation) has led to some confusion or disagreement amongst industry participants.	We believed this was covered by the Gas Industry Disconnection and Reconnection Protocol GIP001. We will make further inquiries and consider what response is appropriate.
Unaccounted for gas (UFG) management	Distributors currently scale retailer volumes to eliminate UFG risk. There is no incentive for distributors to actively prevent or minimise UFG.	We understand this is likely to be one of the 'system integrity' quality standards that NSOs will probably need to disclose under the Commerce Commission's proposed price quality regime. We also believe there is greater transparency on UFG since the Downstream Reconciliation Rules came into effect. In addition, the Gas (Safety and Measurement) Regulations 2010 require NSOs to implement and maintain an audited safety management system. Taken together, we believe these measures provide incentives for NSOs to reduce physical escapes of gas on their systems.
Credit support requirements	Requirements need to align with consumer outcomes as per the retail contracts.	Credit support, faults and interruptions are all matters we will consider when progressing distribution contract benchmarks.
Information requirements	Information requirements regarding faults and interruptions need to align with consumer outcomes as per retail contracts.	

# 3

## Discussion of matters raised in submissions: requirement for further work

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### 3.1 Questions in the Issues Paper

Three questions in the Issues Paper asked for submitters' views on Gas Industry Co's future work on aspects of gas distribution services.

- Do you agree Gas Industry Co should do no further work on the safety and reliability aspects of distribution services? If you think Gas Industry Co should do further work on this topic, please explain why. (Q5)
- Do you agree with the options identified for dealing with slow progress on updating standard distribution agreements? Which option do you think is most appropriate? (Q6)
- Do you agree Gas Industry Co should do no further work on the other efficiency aspects of distribution services? If you think Gas Industry Co should do further work on this topic, please explain why. (Q7)

### 3.2 Safety and reliability

Six submitters agree Gas Industry Co should do no further work in the area of safety and reliability.

A seventh submitter believes Gas Industry Co could usefully monitor Vector's progress in implementing interconnection agreements at all interconnection points and standardising them under the VTC. Such arrangements would help ensure safety and reliability issues are covered consistently and effectively across transmission and distribution networks.

Gas Industry Co agrees that consistency on how safety and reliability issues are handled is important. We will consider this in relation to the benchmarks. We have no plans for other safety and reliability work at this stage.

### **3.3 Updating standard distribution agreements**

The Issues Paper set out two approaches for ensuring distribution arrangements are updated. One was to maintain a watching brief (for example, annual status reporting). The other was to develop and publish benchmarks for best practice in network services agreements.

In the Issues Paper, Gas Industry Co concluded that developing model contracts was inappropriate. GasNet, who is already in the process of reviewing its template agreement, makes the following points.

- The statement that agreements between retailers and distributors are generally confidential is not correct. Its template agreement is available on its website.
- It would have welcomed a template or model agreement before starting its own work. Now that it has committed significant time and cost, it does not think it should be required to contribute to any development of a model agreement.

Gas Industry Co congratulates GasNet for its work in updating its standard distribution agreement.

#### **Maintaining a watching brief**

Two submitters support Gas Industry Co maintaining a watching brief. One of these submitters suggests it would be useful to develop further options that more directly deal with the lack of incentive for distributors to maintain complete and up-to-date contracts with retailers.

Gas Industry Co notes the 'watching brief' could include publishing an annual status report. The report would give information about each NSO's progress in updating their agreements, the availability of standard contracts for open access distribution services, and outstanding issues of concern for retailers and distributors. We think this exercise would provide sufficient incentive for distributors to keep their arrangements current.

#### **Benchmarks**

Three submitters think developing benchmarks is the best approach. One believes that, to ensure non-discriminatory access by retailers, network services agreements (NSAs) should be published on distributors' websites. The benchmarks should focus on outstanding issues of concern, providing a reference for updating existing NSAs. The benchmarks could include, for example, processes for setting and applying prices, billing and payment, and emergency management. Another submitter suggests including a mandate for Gas Industry Co to regularly review distributors' progress in updating their agreements to reflect the benchmarks. Similarly, the third submitter suggests Gas Industry Co set a timetable (similar to the one set for retail contracts) for compliance with the benchmarks.

Gas Industry Co intends to continue working on the proposed benchmarks and will take into account suggestions for what should be included.

### **3.4 Efficiency**

The aspects of efficiency considered in the Issues Paper were: access to the networks, non-discrimination, information availability, and innovation. The paper concluded no efficiency concerns related to distribution arrangements that warranted regulatory intervention. However, we suggested arrangements (for example, NSAs and interconnection contracts) should be disclosed, and that long-awaited updates to those arrangements be progressed.

Five submitters agree Gas Industry Co should do no further work on efficiency. Of these five, one submitter commented on the discontinuity between transmission system allocation arrangements and the Gas (Downstream Reconciliation) Rules 2008. It stated this is one of the most significant issues preventing efficient balancing arrangements from being in place.

Gas Industry Co responds that work is underway on improving the speed with which retailers receive information about their downstream deliveries. We expect to release an issues paper on this matter early in 2011.

# 4

## Discussion of matters raised in submissions: benchmarks for distribution contracts

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### 4.1 Questions in the Issues Paper

One question in the Issues Paper related to a proposed set of high-level benchmarks for gas distribution contracts. The benchmarks were set out in an appendix to the paper.

- Do you consider the high-level benchmarks for distribution contracts proposed in Appendix A are appropriate? If not, please suggest what alternatives should be considered. (Q8)

### 4.2 Benchmarks for distribution contracts

Five submitters support the benchmarks, at least as a starting point. One of these submitters suggested the following changes.

- Commencement and cessation of line charges: delete the words 'as far as possible'.
- Service interruptions: include a requirement to ensure that retailers can comply with the EGCC (Electricity and Gas Complaints Commission) guidelines on interruptions for planned maintenance.
- Review of distribution contracts: suggest that distribution contracts should be reviewed in their entirety at least every five years.

A sixth submitter does not support the development of the high-level benchmarks. It suggests experience in the electricity market indicates the development of model distribution agreements is lengthy and costly. Parties involved struggle to find common ground and it remains uncertain how effective the development of the model contract has been. If discretion is available to providers of electricity, which is an essential energy choice, it sees no reason for a more restrictive arrangement to be imposed on gas.

Gas Industry Co comments the proposed benchmarks are different from the retail contracts designed by the Electricity Commission. We noted in the Issues Paper that 'Electricity experience... suggests going beyond benchmarks to, for example, a model contract, would be difficult and expensive and almost certainly not cost-effective'. As an alternative, we proposed that guidelines could be developed

at a principles level—that is, statements guiding the content of distribution contracts but not necessarily presenting specific comparators for contract terms. This approach allows parties to negotiate mutually acceptable terms with regard to the principles. We note the majority of submitters agree the benchmarks are appropriate.

# 5

## Other issues

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In this section, we discuss issues raised by one submitter. These issues are wider than those covered by the questions in the Issues Paper, which are discussed in the earlier sections of this submissions analysis.

### **5.1 Gas Industry Co's approach to distribution and gas quality issues**

The submitter questions why gas quality and distribution issues were split into separate papers because the papers read the same. It considers Gas Industry Co's mandate to look at gas quality is questionable. Fundamental issues in the quality paper form part of the fundamental issues in the gas distribution paper.

Gas Industry Co notes the concerns regarding our approach to the distribution and gas quality issues. It was possible to deal with gas quality within the distribution paper, but we decided against this for two reasons. One was that it would result in an unbalanced paper because our quality analysis was more involved than the analysis of any other distribution issue. The other was it would limit our analysis because gas quality affects the entire supply chain, not only distribution. We therefore considered it would be clearer if gas quality and distribution issues were discussed in separate papers but issued as a package to highlight that some areas do overlap.

## 5.2 Fundamental issues arising from the Issues Paper

This submitter considers there are several ‘fundamental issues’ stemming from the Issues Paper.

**Table 2 Fundamental issues arising**

Issue	Submitter comments	Gas Industry Co response
Contractual arrangements between TSOs, distributors, and GMS owners	Reviewing contracts to ensure they correctly reflect current industry arrangements or developing new regulations between TSOs, distributors, and GMS owners might be beneficial. This could include the Gas (Safety and Measurement) Regulations 2010, which make parties responsible for matters outside their control.	Gas Industry Co agrees that it may be useful to review the contracts. However, as noted in the Issues Paper many contracts are confidential and some arrangements are not in writing (eg interconnection agreements). We agree that the contracts should be clear about each party’s commitments in relation to key factors such as pressure and odourisation. This is particularly important in the situation the submitter refers to, where the Gas (Safety and Measurement) Regulations 2010 make some parties responsible for matters within the control of another party.
Access to private pipelines carrying non-specification gas	This is a major distribution issue and needs to be considered urgently. Some pipelines originally government-funded for open transport purposes are now privately owned and being used transport gas and/or to store gas.	Gas Industry Co has provided the Minister with advice on private pipelines and expects that dialogue to continue.
Nova networks	An update on Nova networks is required.	We note that an amendment to the Gas Act is required to clarify the status of those assets. The Ministry of Economic Development has this under consideration.
Problems on Vector’s North Pipeline	Access to distribution is also being limited by the problems on Vector’s North Pipeline. Resolving these short- and long-term competition issues must be of utmost importance.	Gas Industry Co has another work stream considering access arrangements on Vector pipelines, so does not need to deal with it here.
Billing systems	Distributors’ and GMS owners’ billing systems should be assessed for ease of understanding, efficiency, and how up to date they are.	Gas Industry Co does not currently have any work relating to distributors’ billing systems, and was not aware of any problems in this area. However, if more details are provided, including an explanation of how problems are preventing the objectives of the Gas Act or GPS being achieved, we will consider whether work is warranted.

Issue	Submitter comments	Gas Industry Co response
Telemetry	Regulations should be made that require distributors and GMS owners to provide TOU telemetry data on the same basis as it is provided upstream.	We consider TOU data from end user's GMS to be information private to end users, and we are not convinced that there is good reason to make the information public.
Meter reading frequency	One of the key drivers of poor balancing and UFG is that not all residential consumers' meters are read every month. Tightening the meter requirements or stipulating investment in cheap smart meters should be discussed.	The Gas (Downstream Reconciliation) Rules 2008 already specify minimum requirements. These can be reviewed when other aspects of these rules are reviewed.
Role of metering	The downstream metering industry needs to develop a better understanding of its role in relation to the rest of the industry. Access to good metering data is central to improved balancing arrangements. Options for resolving this issue include: rolling out smart metering or investing in telemetry upgrades	We agree that metering has an important role, but consider innovation such as the introduction of smart meters to be a consideration for retailers and their GMS service providers.

# 6

## Next steps

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Gas Industry Co thanks submitters for their input on the distribution work stream. After considering submissions, we conclude improvements can be made to existing distribution arrangements. However, we also consider that, currently, there is no strong case for introducing regulation.

The majority of submitters support the development of voluntary high-level distribution contract benchmarks. Gas Industry Co agrees it would be sensible to pursue this work. As we continue to develop the benchmarks, we will take the following steps to ensure we cover issues raised in submissions.

- Include the requirement for distribution agreements to be consistent with or not to conflict with Gas Industry Co's benchmarks for retail contracts.
- Take into account the Government's Energy Strategy and Draft Energy Efficiency and Conservation Strategy.
- Modify our description of 'safety and reliability' so that the fourth aspect reads 'Supply pressure: maintaining pressure within stated specified ranges'.
- Identify the characteristics of interconnection agreements where there is some interdependence between transmission and distribution and indicate how parties responsible for them can meet their responsibilities.
- Ensure the contract benchmarks are consistent with existing retail benchmark agreements.
- Explore further those issues not fully investigated in the Issues Paper, but which were of concern to submitters such as contract terms in relation to disconnection and reconnection, credit support, and faults information and notification.
- Consider suggested topics for inclusion, such as processes for setting and applying prices, billing and payment, and emergency management.

We also intend to:

- Report on the status of distributors updating their NSAs.

- Encourage publication of interconnection agreements at interconnection points.
- Investigate whether:
  - the GANZ is dealing with problems related to file formats; and, if not, consider convening a working group, and
  - existing protocols include definitions of industry terms; and, if not, consider a response.

Below is a timetable for Gas Industry Co's next steps.

**Table 3 Next steps**

Date	Item
December 2010	Issue Submissions Analysis
February 2011	Industry meeting to discuss distribution benchmarks
March 2011	Revised draft distribution contract benchmarks published for consultation
May 2011	Final benchmarks published and timetable for review set
December 2012	Report on status of NSAs, publication of interconnection agreements, file formats and definition of industry terms

Gas Industry Co will update the Minister on the matters discussed in this paper, and advise that we do not believe that regulation is required at present.

# Appendix A Summary of submissions

## The regulatory objective

Submitter	Comment
<b>Question 1: Do you agree with the proposed regulatory objective? If you disagree please explain why and/or provide an alternative.</b>	
Contact, MRP	Agree with the regulatory objective.
GasNet	<p>Questioned why 'safety' was included in the objective but acknowledges that the objective would appear incomplete if safety was not included. It notes that very few issues can be looked at from a safety or commercial perspective without considering or including other issues. GasNet's primary concern with Gas Industry Co referring to 'safety' in the objective is the potential for this to conflict with the Gas Association of New Zealand's (GANZ) role. It wishes to only have one organisation responsible for safety.</p> <p>GasNet also questions whether 'transmission' falls under 'pipeline'. There are a number of issues for network participants that are affected by the transmission system and other upstream participants.</p>
Genesis	<p>Genesis would like to understand why Gas Industry Co considers it useful to articulate a regulatory objective at this stage in the inquiry. It considers that:</p> <ul style="list-style-type: none"> <li>• There is a risk that setting out an objective at this stage closes off potential options;</li> <li>• The Gas Act does not require Gas Industry Co to describe a regulatory objective; and</li> <li>• It considers the main focus at this stage should be on whether there are any matters of regulatory concerns. If concerns are found, the regulatory objective is better developed at the options evaluation stage.</li> </ul> <p>These comments aside, Genesis queries why 'market structure' is included in the objective as Gas Industry Co cannot alter it.</p>
Nova	Nova considers the objective should include the requirement for distribution agreements to be consistent with or not to conflict with the benchmarks for retail contracts. Failure to minimise mismatch results in unnecessary risks and costs being passed on to consumers by retailers.
Powerco	In relation to the explanation of 'safety and reliability', Powerco considered the fourth aspect should be 'Supply Pressure: Maintaining pressures within stated specified ranges' as this more accurately explains the network supply situation.
Vector	Generally agrees with the regulatory objective but asks that going forward, Gas Industry Co also consider the objectives of the Government's Energy Strategy and Draft Energy Efficiency and Conservation Strategy.

## Characteristics of distribution

Submitter	Comments
<b>Question 2: Have we identified all relevant characteristics of distribution? If not, please suggest what other features you believe to be relevant, and explain why they are relevant.</b>	
Contact	<p>Contact considers the description does not consider the interdependency of transmission and distribution arrangements, except in relation to gas quality. These linked characteristics include:</p> <ul style="list-style-type: none"> <li>• Transmission access;</li> <li>• Design of physical assets;</li> <li>• Engineering standards;</li> <li>• Metering arrangements;</li> <li>• Title tracking and allocation;</li> <li>• Balancing;</li> <li>• Management of contingency events; and</li> <li>• Access to information.</li> </ul> <p>To ensure these linked characteristics are treated consistently and compatibly under transmission and distribution arrangements they should be addressed in interconnection agreements between the owners of transmission and distribution systems.</p> <p>The VTC interconnection arrangements could be improved.</p>
Genesis	<p>Genesis notes that open access gas distribution networks compete with electricity networks, and bottled and reticulated LPG</p>
GasNet	<p>GasNet has long considered a regulatory mechanism should be in place requiring retailers to pass through any cost reductions received from network and/or metering services.</p>
Greymouth	<p>The Issues Paper states there are three companies offering open access distribution services. This is an over-simplification. Vector Limited must surely be considered with both an ex-NGC and a United Networks hat on given the lack of synergies this relationship brings to gas retailers and to the industry.</p>
MRP	<p>MRP generally agrees with the description however, it would describe the three open access distribution operators as monopoly rather than dominant providers as the competing Nova networks do not offer distribution services to third party retailers.</p> <p>It also provides several comments on metering arrangements.</p> <ul style="list-style-type: none"> <li>• There are no interconnection agreements between distributors and GMS operators;</li> <li>• Its experience with switching to a new GMS provider when a customer switches retailer is consistent with Gas Industry Co's finding, that it is now an expectation rather than a rule;</li> <li>• It is unaware of any open access network operator specifying a monopoly GMS provider; and</li> <li>• GasNet does not provide GMS services outside its network areas (contrary to what the paper states).</li> </ul>

Submitter	Comments
<b>Question 2: Have we identified all relevant characteristics of distribution? If not, please suggest what other features you believe to be relevant, and explain why they are relevant.</b>	
Nova	<p>Nova notes that a key characteristic not included in the analysis is the inclusion of certain obligations under distribution contracts in retail contracts with consumers. Due to the lack of competitive tension, there is limited opportunity for retailers to negotiate distribution terms. Terms and conditions in distribution agreements that tend to be issues include:</p> <ul style="list-style-type: none"> <li>• Disconnection/reconnection;</li> <li>• Faults information and notification;</li> <li>• Access to network assets and interconnection points;</li> <li>• Responsibility for assets; and</li> <li>• Credit support requirements.</li> </ul> <p>In circumstances where there is competitive tension, retailers and their customers have access to improved negotiated terms and conditions compared to standard terms. This reflects the benefits of competitive tension.</p>
Powerco	<p>Powerco agrees with the relevant characteristics but adds that in its experience, distribution and metering companies do face competition for end users alternative fuels, such as LPG or electricity. As a point of clarification, Powerco notes that the outlet of the distribution network is the point of supply. This outlet may not be the GMS and it may not be known to the distributors.</p>
Vector	<p>The paper misses a critical characteristic that has implications for the regulation of gas distribution networks—that interested parties need to be highly incentivised to undertake the risk associated with the investment and operation of such assets. It is important to ensure that policies are put in place with this in mind.</p> <p>Vector provides examples of the regulatory control distribution networks are set to be subject to. Given this and the lack of significant complaints regarding distribution, Vector is strongly of the view that further regulation of distribution networks (that is, regulation of distribution contracts) will not provide any benefits. Such regulation could also impede contracting innovation in the sector. Vector considers commercial parties are best suited to address contracting issues in distribution.</p>

## Regulatory arrangements

Submitter	Comments
<b>Question 3: Have we identified all regulatory arrangements that are relevant to the analysis of gas distribution? If not, please suggest what other regulatory arrangements are relevant, and explain why they are relevant.</b>	
Contact	<p>Contact considers that the other gas governance arrangements that place obligations on distributors should also be considered, including:</p> <ul style="list-style-type: none"> <li>• Gas Governance (Critical Contingency Management) Regulations 2008;</li> <li>• Gas (Switching Arrangements) Rules 2008;</li> <li>• Gas (Downstream Reconciliation) Rules 2008; and</li> <li>• Gas Governance (Compliance) Regulations 2008.</li> </ul>
GasNet	<p>GasNet notes that it is also worth considering the 1998 New Zealand Pipeline Access Code. Although voluntary this agreement had significant support from the major parties in the industry. The document has not been updated since its first publications but the majority of the principles still apply.</p> <p>It also notes the pending price-quality regime. GasNet expects changes brought about by the price-quality regulations to be significant particularly for a company of its size.</p>
Genesis	<p>Genesis considers all the relevant arrangements have been identified.</p>
MRP	<p>MRP notes that the Consumer Guarantees Act applies to residential gas supplies and requires gas to be supplied that is fit for purpose. The Act therefore has the effect of being an all encompassing regime covering gas quality, price and safety. MRP also consider the Gas Governance (Critical Contingency Management) Regulations 2008 should be considered as they have an indirect impact on the operations of the network and GMS operators.</p> <p>It notes that Gas Industry Co suggests a reference to the regulations in the benchmarks. MRP, however, would recommend instead that the network operators agree arrangements for dealing with both critical contingencies that occur under the regulations and localised network contingencies. These arrangements should be included in their network services agreements. Such arrangements should detail the co-ordination and management of the disconnection and reconnection of end users during unplanned outages as well as clearly covering who will be responsible for the cost of this work.</p>
Nova	<p>Nova agrees with the assessment that non-price aspects of distribution are not adequately covered by the Commerce Commission's price control work. It considers a direct outcome of the price control regime has been the incentive for distribution companies to pass risk that is better managed by distributors to retailers.</p>
Powerco	<p>Powerco notes that gas distributors are also required to comply with the Gas (Statistics) Regulations 1997.</p> <p>It also notes the information disclosure regulation the Commerce Commission is currently working on as this is likely to significantly increase the amount of non-financial information available.</p>

Submitter	Comments
<p><b>Question 3: Have we identified all regulatory arrangements that are relevant to the analysis of gas distribution? If not, please suggest what other regulatory arrangements are relevant, and explain why they are relevant.</b></p>	
<p>Vector</p>	<p>Vector considers that the relevant overarching regulatory arrangements have been correctly identified. However, it considers the paper has failed to emphasise key provisions of the Commerce Act that have significant implications for the regulation of gas distribution.</p> <p>Vector also disagrees with the statement that reliability and quality standards will just be reporting standards and not firm measurable targets under the Commerce Act regime. It also notes that the paper states that the Commerce Commission 'does not commit to any particular set of standards but makes clear that the regime will set in place objective quality standards with defined and measurable indicators'. It considers it unclear which of these statements Gas Industry Co considers correct.</p> <p>Vector's view is that the regime is likely to include measurable targets because of provisions in the Act and previous indications of the Commission's preference.</p>

## Identification of relevant issues

Submitter	Comments
<b>Question 4: Have we identified all issues relevant to the analysis of gas distribution? If not, please suggest what other issues are relevant, and explain why they are relevant.</b>	
Contact	<p>Contact agrees that most of the issues have been covered but provides additional comments.</p> <ul style="list-style-type: none"> <li>• Given that private networks now do not fall under the definition of gas distributor, there must be a concern as to whether demand curtailment in the event of a critical contingency would include or not include consumers connected to a private network;</li> <li>• Bundled GMS services invariably fall short of adequately specifying service levels for GMS services, which would be enhanced if GMS services were separated as a competitive activity;</li> <li>• An ongoing issue is the lack of efficient and consistent information exchange file formats for billing information and reconciliation (including alignment of billing with retailer responsibility and appropriate status in the registry across all distributors); and</li> <li>• Issues that arise at transmission system/distribution network interconnection points between TSOs, NSOs, and users of both systems are not well addressed because of the lack of public interconnection agreements at Vector transmission system delivery points and the failure to recognise how some regulations, which apply to distribution networks, impact on transmission system arrangements.</li> </ul>
GasNet	<p>GasNet would like to see the development of a standard interconnection agreement for use between the network owners and transmission companies.</p> <p>The issues GasNet faces are not unique and are better served by a standard industry agreement. It is concerned about the fact that Nova is currently not considered a gas distributor under the Gas Act definition. Especially if Nova is not subject to the same operational and compliance regime as all other network operators. If not addressed in this forum, it should be addressed somewhere else.</p>
Genesis	<p>Genesis agrees that all the relevant issues have been identified.</p>
MRP	<p>MRP again recommends that Gas Industry Co mandate the introduction of interconnection agreements between transmission and distribution operators and between distribution and GMS operators.</p>
Nova	<p>See response to question 1.</p> <p>Nova considers some of the key issues to be addressed in new distributor arrangements include:</p> <ul style="list-style-type: none"> <li>• Credit support requirements. Requirements need to align with consumer outcomes as per the retail contracts.</li> <li>• UFG management. Distributors currently scale retailer volumes to eliminate UFG risk. There is no incentive for distributors to undertake activities that prevent or minimise UFG.</li> <li>• Line charges following ICP vacancy. Distributors should be able to charge retailers for ICPs that are vacant. This issue manifests itself in the disconnection/reconnection fiasco that continues unabated.</li> <li>• Information requirements regarding faults and interruptions need to align with consumer outcomes as per retail contracts.</li> </ul>

Submitter	Comments
<b>Question 4: Have we identified all issues relevant to the analysis of gas distribution? If not, please suggest what other issues are relevant, and explain why they are relevant.</b>	
Powerco	<p>Powerco notes that no mention has been made of the end users on disconnection charges. It considers the current practice reflects retailers desire to avoid cost and suggests a user pays approach may be a fairer approach for end users. It also notes that the Commerce Commission has proposed SAIDI and SAIFI as the quality path for the gas distribution sector from 1 July 2012. This is unlikely to be 'benchmark for reporting', as suggested by Gas Industry Co, but it is likely to be the actual limits Powerco must operate within.</p>
Vector	<p>In relation to issues regarding contracting arrangements for properties that have been vacated by customers, Vector considers that distributors should be able to continue to charge retailers in such circumstances to enable the recovery of significant fixed sunk costs.</p> <p>It also considers that the absence of industry-agreed definitions of terms (such as, temporary disconnection, transitional disconnection, and relocation) has led to some confusion or disagreement amongst industry participants. It suggests Gas Industry Co consider facilitating a process for industry to develop a firm set of definitions. To start, Gas Industry Co could assess whether the GANZ protocol is an appropriate basis for the development of a firmer industry agreement.</p>

## Safety and reliability

Submitter	Comments
<b>Question 5: Do you agree Gas Industry Co should do no further work on the safety and reliability aspects of distribution services? If you think Gas Industry Co should do further work on this topic, please explain why.</b>	
GasNet, Genesis, MRP, Nova, Powerco	Agree that no further work in this area is required.
Contact	Contact considers it would be useful for Gas Industry Co to monitor progress on Vector's proposed intention to implement interconnection agreements at all interconnection points and to standardise these arrangements under the VTC. Such arrangements would help ensure safety and reliability issues are addressed consistently and more effectively across transmission and distribution networks.
Vector	Vector refers Gas Industry Co to its submission on the Gas Governance Issues in Quality: Issues Paper. More prescriptive regulatory arrangements for gas quality are unnecessary. It also suggests Gas Industry Co coordinate with GANZ on any future quality work as GANZ has recently commissioned audits in relation to gas quality on Vector's transmission system. Vector notes other arrangements that cover gas quality. Redundant investigation or regulation would not be consistent with the Government's objective of streamlining regulation, and would not be a good use of the industry's time.

## Updating standard distribution agreements

Submitter	Comments
<b>Question 6: Do you agree with the options identified for dealing with slow progress on updating standard distribution agreements? Which option do you think is most appropriate?</b>	
Contact	Contact believes that, to ensure non-discriminatory access to retailers, all NSAs (excluding any additional services) should be published on distributors' websites. It also agrees that a model NSA is inappropriate for the industry but supports the development of benchmarks focused on outstanding issues of concerns. These would provide a reference point for updating existing NSA and could include, for example processes for setting and applying prices; billing and payment; and emergency management.
GasNet	GasNet supports Gas Industry Co maintaining a watching brief. It also notes the following: <ul style="list-style-type: none"> <li>• The statement that agreements between retailers and distributors are generally confidential is not correct. A template GasNet agreement is available on its website. It is a bit out of date but all of its agreements are based on this. GasNet is currently in the process of reviewing its agreement; and</li> <li>• GasNet would have welcomed a template or model agreement prior to commencing its own work. Now that it has committed significant time and cost, it does not support Gas Industry Co developing a model agreement if GasNet is required to contribute to the cost.</li> </ul>
Genesis	Genesis considers further options could be developed that more directly address the lack of incentive for distributors to maintain and complete up-to-date contracts with retailers. It considers Gas Industry Co maintaining a watching brief and reporting on progress would be most appropriate course of action at this stage. It also notes GasNet's consultation process on updating its distribution agreement.
MRP	MRP's preference would be for Gas Industry Co to develop, publish and update compliance with a series of benchmarks along the lines proposed in Appendix A. A mandate for regular review should also be included.
Nova	Yes, Nova prefers Gas Industry Co develop minimum benchmarks for distributor arrangements and set a timetable for compliance with those benchmarks. It suggests a timetable similar to the one used for retail contracts.
Powerco	Powerco believes the current regulatory environment has meant that distributors are continually trying to meet changing regulatory demands. This has placed high strains on resources. The uncertain regulatory environment has left Powerco reluctant to invest in updating its NSAs.  However, if there is a strong view in industry that a standard NSA should be developed, Powerco would be willing to participate in this work. To speed things up, Powerco suggests using the benchmarks as a starting point for developing the standard NSA as well as socialising any costs incurred in developing the NSA. A good time to start the review would be after the Commerce Commissions work has finished (2012).

Submitter	Comments
<b>Question 6: Do you agree with the options identified for dealing with slow progress on updating standard distribution agreements? Which option do you think is most appropriate?</b>	
Vector	<p>Vector believes it is unnecessary to consider options for dealing with the updating of standard distribution agreements. Vector's distribution contracts have the right industry standards. The extra burden of compliance will yield little benefit to end users, distributors and retailers. It is therefore not good use of Gas Industry Co and Industry time.</p> <p>Vector would be concerned that if a standard, regulated contract were pursued:</p> <ul style="list-style-type: none"> <li>• Flexibility may be lost;</li> <li>• Price shocks may occur;</li> <li>• There is likely to be little benefit; and</li> <li>• Innovation may be discouraged.</li> </ul> <p>Furthermore, a diversity of contracting arrangements could indicate the existence of competitive pressures in the market.</p>

## Efficiency

Submitter	Comments
<b>Question 7: Do you agree Gas Industry Co should do no further work on the other efficiency aspects of distribution services? If you think Gas Industry Co should do further work on this topic, please explain why.</b>	
GasNet, Genesis, Powerco	Agree that no further work on efficiency should be undertaken.
Contact	Contact agrees that no further work should be undertaken. It again notes its request for Gas Industry Co to assist in addressing the discontinuity transmission system allocation arrangements and the Gas (Downstream Reconciliation) Rules 2008. This is one of the most significant issues preventing efficient balancing arrangements from being in place.
MRP	MRP considers it disappointing that there has not been any progress on the disconnection and reconnection issues with regards to fixed daily fees charged by the network and GMS operators. To provide relief from the daily charges, a retailer must physically disconnect gas supply. The average disconnection charge is now in excess of \$100 (with a similar reconnection charge). Retailers are therefore faced with the option of continuing to pay fixed daily charges or incur the cost of disconnecting gas supply. These costs can only be recovered through tariffs, pushing prices up further. It notes also a new requirement in the Gas (Safety and Measurement) Regulations 2010 for retailers to certify reconnections when a gas supply has been disconnected for more than six months. This is a clear disincentive for customers to reconnect to gas. Apart from these issues, MRP is happy with Gas Industry Co maintaining a watching brief. However, if no significant progress is made on the issues identified in the next 12 months, Gas Industry Co should revisit this decision.
Nova	Nova believes any other issues relating to efficiency can be addressed during the development of benchmarks.
Vector	<p>Vector agrees Gas Industry Co should undertake no further work on the 'other' efficiency issues identified in the consultation paper. These areas do not warrant further investigation or regulations for the following reasons.</p> <ul style="list-style-type: none"> <li>• Access: there is a lack of evidence of any access issues;</li> <li>• Information: all Vector's distribution networks will be subject to a new price-quality regime and information disclosure regulations; and</li> <li>• Innovation: diverse contracting arrangements could well be an indication of competitive pressures in the market.</li> </ul>

## Benchmarks for contracts

Submitter	Comments
<b>Question 8: Do you consider the high level benchmarks for distribution contracts proposed in Appendix A are appropriate? If not, please suggest what alternatives should be considered.</b>	
GasNet, Genesis	Support the benchmarks.
Contact	Contact considers the high level principles are a good starting point for developing some more specific benchmarks for issues that exist.
MRP	<p>MRP's preference is for Gas Industry Co to develop, publish, and update compliance with a series of benchmarks along the lines proposed in Appendix A. It requests that a requirement for regularly reviewing these arrangements is also adopted.</p> <p>MRP agrees with the benchmarks, but suggests the following changes:</p> <ul style="list-style-type: none"> <li>• Commencement and cessation of line charges: delete the words 'as far as possible';</li> <li>• Service interruptions: include a requirement to ensure that Retailers can comply with the EGCC guidelines of interruptions for planned maintenance; and</li> <li>• Review of distribution contracts: suggest that distribution contracts should as a minimum be reviewed in their entirety every five years.</li> </ul>
Nova	Nova supports the benchmarks as a starting point.
Powerco	Powerco believes the proposed benchmarks are a good first representation. It considers that if there is a strong view from industry that a standard NSA should be developed then the benchmarks statements could form the basis of the agreement.
Vector	Vector does not support the development of the high level benchmarks for distribution for reasons stated earlier in its submission. Experience in the electricity market has indicated that the development of model distribution agreements is lengthy and costly. Parties involved struggle to find common ground and it remains uncertain how effective the development of the model contract could have been. If this degree of discretion is available to providers of electricity, which is an essential energy choice, we see no reason for a more restrictive arrangement to be imposed on gas. However, if Gas Industry Co decides to pursue the development of benchmarks for distribution contracts, Vector would like to be consulted and able to provide further input.

## Other comments

Submitter	Comments
Greymouth	<p>Gas Industry Co's mandate for this work is questionable. The paper obscures the real problems, which are:</p> <ul style="list-style-type: none"> <li>• Distributor interconnection arrangements with TSOs; and</li> <li>• Access to pipelines for specification and non-specification gas.</li> </ul> <p>Questions why gas quality was split into a separate paper because the papers read the same. Therefore, we consider the fundamental issues in that paper (<i>Gas Governance Issues in Gas Quality: Issues Paper</i>) are the same as in this paper and consider them in this submission.</p> <p>Several fundamental issues stem from this paper.</p> <ul style="list-style-type: none"> <li>• There is potential benefit in tidying up contracts or developing new regulations between transmission, distribution and GMS owners;</li> <li>• Access to non-spec gas pipelines is a major distribution issue and must be addressed urgently by Gas Industry Co;</li> <li>• Gas Industry Co needs to update the industry on status of Nova's distribution networks;</li> <li>• Access to distribution is also being limited by problems on Vector's North Pipelines;</li> <li>• An assessment of distributors and GMS owners billing systems should be undertaken;</li> <li>• Regulations should be made that require distributors and GMS owners to provide TOU telemetry data on the same basis;</li> <li>• Tightening the meter reading requirements or stipulating investment in cheap smart meters to ensure residential meters are read every month would improve balancing and should be explored; and</li> <li>• The gas metering industry appears to be behind in developments and needs to urgently understand how their services fit into the gas industry's supply chain and focus on service and deliverability. Access to metering data is a core issue that impacts shippers' abilities to better manage balancing positions.</li> </ul> <p>When transmission issues are added to the mix, one should get a good picture of the fundamental issues in the industry from a bottom-up perspective.</p> <p>It doesn't really matter whether these issues are addressed contractually or through regulation. These issues lie at the grass roots of the industry from a distribution level perspective.</p> <p>Grass roots issues need to be addressed to incentivise explorers to explore for gas and to ensure large end users are motivated to stay in New Zealand and productively contribute to the economy.</p>