Vector Limited
101 Carlton Gore Road
PO Box 99882, Newmarket
Auckland 1149,
New Zealand
www.vector.co.nz

Corporate Telephone
+64-9-978 7788

Corporate Facsimile
+64-9-978 7799

Paul Mitchell
Chief Advisor
Regulation Branch
Commerce Commission
PO Box 2351
Wellington

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Cross-submission on Gas DPP Discussion Paper

1. Vector welcomes the opportunity to provide this cross-submission to the Commerce Commission ("Commission") on the *Initial Default Price-Quality Path for Gas Pipeline Businesses: Discussion Paper*.

2. Vector's contact person for this submission is:

   Ian Ferguson
   Regulatory Advisor
   DDI: 09 978 8277
   Email: ian.ferguson@vector.co.nz

Non-contiguous networks

Costs and benefits of regional reporting

3. The Commission has sought views on an appropriate level of disaggregated regional reporting for gas distribution networks. We understand that the information that would be reported on a regional basis would be the gas distribution equivalent information to the information reported in Schedules MP1 and MP3 in the Electricity Information Disclosure Requirements 2008.

4. In our previous submission, Vector undertook to provide the Commission with our views on disaggregated reporting for our gas distribution business. We noted that reporting on the basis of the technical definition of "non-contiguous network" would result in Vector providing separate reports on

over 50 different networks, which would be costly and onerous and we welcome the Commission's statement that this is not its intention.[1]

5. In general, Vector is unclear what benefit is derived by reporting certain gas distribution business data on a disaggregated basis. For electricity, we appreciate that separate reporting for networks with different relations to trusts that own lines companies may be useful. This can help to remove any perception that the networks are being treated differently due to the ownership structure of the lines company.

6. However, for the gas distribution business, this distinction is less applicable and we are unclear what value is created by reporting on a regional basis. In terms of quality, for example, all gas networks are made up of underground pipelines so the differing impacts of weather events on different electricity networks are not replicated for gas networks.

7. The Commission should be aware that there will be difficulties and costs for Vector in aligning internal business systems to report on the basis of any new regional structure. We would be unlikely to be able to report historic data on the basis of a new regional structure. Reporting for the 2011-2012 disclosure year may also be challenging as the final information disclosure requirements will not be published until part way through that year.

8. As with any proposal where the costs are certain but the benefits hard to ascertain, Vector submits that the Commission must justify any requirement for regional reporting and demonstrate that the benefits do outweigh the costs.

9. Vector's preference is to report on a two-region basis (Auckland and Other North Island). This is similar to our current internal reporting structure and would minimise compliance costs.

10. If the Commission can demonstrate that the additional cost of more disaggregated reporting outweighs the costs, Vector would be happy to work with the Commission to develop a sensible more disaggregated regional reporting structure that would apply to Vector.

11. Finally, while Quality information can be reported on a regional basis. Vector would be strongly opposed to regional quality standards – the number of incidents in each region is generally low and it would be difficult to develop a statistically meaningful performance measure on the basis of such a small population.

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[1] Vector Ltd., *Submission on the Commerce Commission's Initial Default Price-Quality Path for Gas Pipeline Businesses: Discussion Paper*, 27 May 2011, paragraphs 111-112.

Definition of location for the purposes of the quality standard

12. In our previous submission, Vector undertook to provide in this submission a definition of "rural areas" for the purposes of the Response Times to Emergencies quality standard[2].

13. After some deliberation, Vector's proposed locational definition for the Response Times to Emergencies quality standard is:

    a) 90% of responses within 60 minutes in major urban areas;

    b) 80% of responses within 60 minutes elsewhere.

14. While this does not use the term "rural areas" we consider it to be an appropriate and workable definition.

15. The definition of "major urban areas" is that used by Statistics New Zealand, which defines a major urban area as a location which had more than 30,000 inhabitants in the 1996 census[3].

16. The locations that meet the definition of major urban area are: Whangarei, Auckland, Hamilton, Tauranga, Rotorua, Gisborne, Napier-Hastings, New Plymouth, Wanganui, Palmerston North, Kapiti, Wellington, Nelson, Christchurch, Dunedin and Invercargill. Gas distribution networks do not exist in a few of these locations, but that does not negate the usefulness of the definition.

Capacity-related quality standards

17. The Major Gas Users Group ("MGUG") has proposed[4] that a further quality measure should be created – a measure of whether a pipeline has been declared to be constrained for capacity reservations, and for how long this constraint has been in place.

18. Vector does not support this proposal, which appears to confuse service quality with investment requirements.

19. MGUG's proposal would seem to make the declaration of a constraint a potential quality breach. Declaration of constraints when they occur is important market information and the regulatory regime should not incentivise against providing the market with information about capacity.

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[2] ibid, footnote 11.

[3] See the link below for further information regarding the definition: http://www2.stats.govt.nz/domino/external/omni/omni.nsf/23f076d733ded7e74c256570001d92b4/813688a3d4ac5d7ccc2577260013dd44?OpenDocument

[4] Major Gas Users Group, *Re: Initial Default Price-Quality Path for Gas Pipeline Businesses – Commerce Commission Discussion Paper dated 1 April 2011*, 27 May 2011, section 8.

20. Also, the length of time a pipeline has been constrained is not an appropriate quality standard. MGUG’s proposal could only work if robust gas transmission security criteria and clear mechanisms for recovering costs of investment are in place. However, such criteria and mechanisms are not in place in New Zealand. A GTB is therefore reliant on the willingness of gas customers to pay for the investment over time and the Part 4 regulatory regime being operated in a way that would enable the cost of investment being recovered (as well as other factors).

21. Further, there is no exclusive licence for Vector (or Maui Development Ltd) to invest in pipeline capacity. Other parties that consider the venture to be a viable commercial enterprise are free to make the investment. The ability to relieve constraints is not solely in the hands of existing GTBs.

Yours sincerely,

Allan Carvell
Group General Manager Regulation and Pricing