

Panel of Expert Advisers: Meeting 2

Date: Monday 7 November 2011

Time: 10.00 to 16:00 (Lunch at 12.00)

Venue: Gas Industry Co, Level 8, The Todd Building, 95 Customhouse Quay, Wellington

Minutes

Present

Members

- ❖ Graham Scott (Chair)
- ❖ Brenda Talacek
- ❖ Bruce Girdwood
- ❖ Charles Teichert
- ❖ Don Gray
- ❖ John Small
- ❖ Nick McDougall
- ❖ Ross Parry

In attendance from Gas Industry Co

- ❖ Ian Dempster
- ❖ Ian Wilson
- ❖ Melanie Leonard
- ❖ Steve Bielby
- ❖ Pamela Caird

In attendance other

- ❖ Isaac Katz (Harding Katz PTY Ltd)
- ❖ Terry Grimwade (Australian Energy Market Operator)
- ❖ Lew Evans (12:55 to 16:06)

Note: Gas Industry Co provides secretariat functions for the PEA.

The meeting opened at 10:05.

1 Welcome and Introduction

The Chair opened the meeting and invited Nick McDougall to introduce himself.

The special guests, Terry Grimwade and Isaac Katz, and Gas Industry Co staff member, Pamela Caird, were welcomed to the meeting. The Chair noted that Terry and Isaac have been invited to provide the group with different perspectives to help stimulate their thinking on the issues in New Zealand. Terry would be providing a practical account of the Australian gas market arrangements, and Isaac would be presenting his work on North Pipeline Investment Issues. Lew Evans would be joining the meeting in the afternoon and present another perspective.

The Chair noted that by the end of the day Members should reach a landing on how they would finalise their advice to Gas Industry Co on the Scope Review.

2 Matters arising from last meeting

The Chair raised several matters arising from the last meeting for discussion.

The Draft Principles for PEA Members: The Chair asked Members to confirm what the purpose of the Draft Principles would be as there was some confusion around the wording in the minutes. Members confirmed the principles:

- would be used to evaluate options;
- should be based on the Gas Act/GPS objectives; and
- should not be overly detailed.

The Secretariat agreed to developing a first draft and circulating to Members for consideration.

Adjunct members: Ian Dempster noted that due to the feedback from Members at the last meeting, the adjunct memberships would not be pursued further at this stage. Ian noted that instead the Commerce Commission and MED will be kept informed of the PEA's work and, if required, invited to contribute at a meeting.

PEA Email: Melanie Leonard presented how to use the PEA email, PEA@gasindustry.co.nz.

Update on Supply/Demand RFI: Ian Dempster thanked Members for providing comments on the Draft Supply/Demand RFI. The next step is to finalise the RFI and send to it to consultants. The RFI will be sent by invitation but Members have asked Gas Industry Co to look into sending it out by the Government Electronic Tenders Service (GETS). Ian noted that the PEA may be asked for input on the Supply/Demand study at a later stage. Bruce Girdwood and Don Gray both expressed interest in providing ongoing assistance in the development of this work.

Conflicts of interest register: The Chair thanked Members for providing the Secretariat with their conflicts of interest. He reminded that Members should inform

the Secretariat if their information changes. The Chair noted that Dr. Small had declared Covec’s interest in tendering for the Supply/Demand RFI. The group would need to consider the issue further if Covec’s bid is successful and manage any potential conflicts in an appropriate way.

Action

Item	By	Date for Action
Draft Principles	Secretariat	Draft circulated by next meeting

3 Australian Experience

Terry Grimwade led a discussion with the PEA that included a presentation. The following topics were covered in the discussion and presentation:

- An overview of the Australian regulatory agencies and their responsibilities.
- Background on the Victorian Gas Market and Short Term Trading Markets (STTM) in Sydney and Adelaide.
- The characteristics of common, contract and market carriage.
- Explanation of how market carriage operates in Victoria and how the STTM operates in other areas.
- Overview of the issues and priorities in the Australian gas market.

4 Consideration of Investment Issues

The Chair noted that the purpose of this session was to start Members thinking about the underlying economics of gas pipelines. Lew Evans and Isaac Katz had combined their sessions due to the strong overlap in their subject matter.

Lew Evans began with a presentation on the Efficient Management of Gas Transmission. The presentation covered:

- The characteristics of gas pipelines services;
- an overview of two states of efficiency, static and dynamic, and the application of both in gas pipeline utilisation and investment; and
- an overview of the two broad approaches to governing pipelines – common carriage and contract carriage and the defining features of each.

Isaac Katz presented next, explaining first the background to the report Harding Katz had written for Vector in 2010, *Facilitating Investment in the North Pipeline*. Isaac noted that the report and the presentation reflect the views of Harding Katz and not necessarily the views of Vector.

The remainder of Isaac’s presentation covered the following topics:

- capacity issues:
 - concepts of physical and contractual capacity;
 - implications for investment;
- how should Vector approach the investment question; and
- can and should the access arrangement and investment issues be separated.

During the discussion that followed, Members agreed that:

- There is a high degree of separability between access and investment issues;
- Vector should focus on physical capacity (rather than commercial);
- The options Contract Carriage provides to bundle high value services together is useful;
- A good principle of regulation is certainty and at the moment, there is not enough regulatory certainty around the Commerce Commission’s position on investment for gas pipeline businesses;
- When considering options for investment, transmission alternatives also need to be considered; and
- The lumpiness of a pipeline investment makes the decision to invest even more difficult – this makes pipeline owners susceptible to either under or over investing.

5 Wrap-up and Next Steps

The Chair noted that the aim is for the PEA to advise Gas Industry Co on the GTIP Scope before the end of the year.

Ian Dempster explained that the group should focus on two broad questions:

1. Has the GIC defined the suite of GTIP projects correctly; and
2. Which option for the Market Project will be pursued?

Ian noted that Gas Industry Co’s view is that, for the Market Projects, the first step of the review should be of Vector’s access and pricing arrangements rather than proceeding directly to the more comprehensive review of gas trading arrangements. Gas Industry Co considers the large scope and resources required to undertake the review of gas trading arrangements may not justify the benefits.

Members agreed with this but thought that the option should be left open for undertaking a more comprehensive review in addition to making changes to Vector’s access and pricing arrangements.

Members recognised the need to clearly identify the market failure for access

arrangements before work is started.

Members also discussed the importance of the regulatory framework for investment. Members agreed that it would be useful to further explore the adoption of a regulatory investment test for gas. One Member noted that such a test would apply to both Vector and MDL. It was also noted that work on testing regulatory options should be undertaken only once a viable investment has been identified.

The Secretariat was asked to update the slides from the 'Overview of Scope Review' presentation, presented at the last PEA meeting (13 October) to reflect the discussion on the Scope Review. This will form the basis of the PEA's advice on the Scope Review.

Actions

Item	By	Date for Action
Update slides from the 'Overview of Scope Review' presentation to reflect Members' views and circulate to Members.	Secretariat	Before next meeting

The meeting closed at 16:06.

Next meeting

The next meeting will be Friday 16 December.