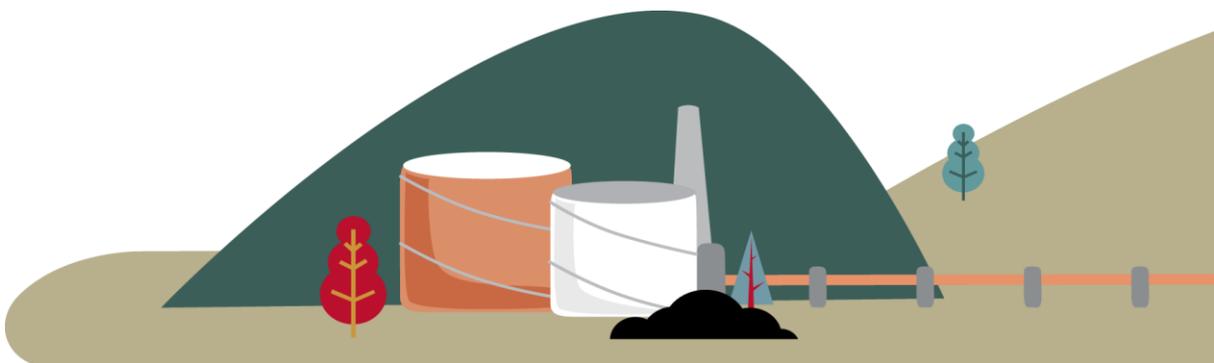


Gas pipeline default price-quality path reset 2017

Gas stakeholder meeting (Quality of service) – 24 May 2016

Summary of views

Date of publication: 20 June 2016



Purpose

1. This paper gives an overview of the meeting the Commerce Commission held with gas pipeline stakeholders on 24 May 2016, at the offices of the Gas Industry Company (GIC). The paper summarises the issues Commission staff and stakeholder representatives discussed, and attendees' views.

Purpose of the workshop

2. The purpose of the workshop was to encourage open discussion about:
 - 2.1 quality of service in the gas transmission and gas distribution sectors; and
 - 2.2 the role the upcoming gas default price-quality path (DPP) reset has to play in ensuring suppliers deliver services at a level that consumers demand.
3. The Commission shared its emerging views on how it should assess quality of service in the DPP context, as well as its initial thoughts about what changes may be warranted for transmission and for distribution.
4. The workshop focussed primarily on changes to the DPP quality standards, but also covered Commission views on the other regulatory tools available to promote quality of service, including Information Disclosures (ID) and Asset Management Plans (AMP), and how they are best used.

Summary of views

5. This section summarises attendees' views and largely follows the course of the meeting. However, because of the interrelated nature of the topics and the open structure of the meeting, some of the views may have been raised in different parts of the meeting.

Quality of service: consumer demands – presented by GIC.

6. The GIC presented on its findings on consumer demands, including quality of service.
7. The GIC identified the 'long-term' interests of consumers as:
 - 7.1 reliable service, which includes:
 - 7.1.1 no interruptions to gas delivery;
 - 7.1.2 delivery of pressure maintenance;
 - 7.1.3 no off-specification for gas;
 - 7.1.4 odorant levels maintained;
 - 7.1.5 no billings errors;
 - 7.1.6 timely bills;

7.1.7 efficient management of events; and

7.1.8 competitive prices.

Emerging views on transmission

8. The Commission outlined the current standard of response time to emergencies (RTE).
9. The Commission acknowledged that the wider regulatory regime is extensive, and that it does not want to duplicate any existing frameworks if there is no long term benefit to consumers in doing so. Instead the Commission would focus on gaps and a regime that complements the existing frameworks whole picture.
10. The Commission identified two key issues with the current regime:
 - 10.1 AMPs do not adequately communicate with consumers; and
 - 10.2 there is limited accountability or compensation following major incidents.
11. The proposed standard requires setting an outage standard of zero or near zero and introducing a reporting obligation if there is a major outage. This would be coupled with an enforceable quality standard, which could be linked to a financial penalty. The Commission is open to discussing if a penalty is appropriate or necessary. However, the standard would need to be quantifiable if to be enforceable.
12. Vector asked if there was evidence of dissatisfaction with the current standards.
13. Maui agreed that it would be good to understand what consumers want, and what they care about, and then decide who is responsible and how they will be held accountable.
14. Vector noted that the cost of changing a disclosure regime should not be overlooked.
15. Greymouth Gas was concerned that the responsibility for maintaining the pressure, odourisation, and specification is on shippers, but that in practice there are limited things that they can do about this. Powerco responded that distributors also have little control as it is contracted out.
16. GIC stressed the importance of thinking about what to do in the event of a major incident, and noted that it was difficult to pre-specify exactly what happens as these types of events are rare.
17. First Gas was concerned that the proposed quality standard would result in 'double jeopardy'. Failure to act as a reasonable and prudent operator (RPO) breaches the Operating Code. It is likely that the same conduct could result in breaching the quality standard in the DPP, which would also have consequences.

- 17.1 The Commission noted that it is constrained by the Commerce Act which caps its ability to seek penalties.
18. Maui asked in what context the proposed quality standard would apply: whether the proposed scheme would duplicate the critical contingency management reporting mechanism (CCMR) or whether it would replace the Ministry of Business Innovation and Employment (MBIE) investigation?
- 18.1 The Commission's investigation would involve similar information to that which is required by the CCMR, but the focus of the Commission's investigation would be broader. We do not want to duplicate the MBIE investigation.
- 18.2 Our proposed standard would set an outage standard somewhere between 0 and 1. When the standard is breached, there would be an obligation to report on the major incident, and then there may be a follow-up.
19. Vector suggested that a cap and collar for system average interruption duration index (SAIDI) and system average interruption frequency index (SAIFI) could be used, similar to the electricity sector, so that suppliers can make a decision on whether to invest to improve reliability. This would create the opportunity to introduce rewards into the quality regime and would create a standard that is symmetric rather than asymmetric.
20. Maui suggested that the Commission develop a clear quality measure and control, and then have a conversation about how much it is valued by consumers.
21. MGUG agreed that the measures should be developed first and then think about what incentives are in place.
22. Oji Fibre Solutions noted that a forward-looking measure assessing what suppliers are doing and how (possibly a link to the AMP) would be more helpful.
23. MGUG noted that there is no need to report on every outage - only the material outages that lead to curtailments - and suggested that what is critical/material should be defined.
24. GasNet was concerned that users connected directly to the transmission system would bear the greatest burden in the event of outages.

Emerging views on distribution

25. The Commission outlined that the current standard is a measurement of RTE and raised the point that in the event that there is an outage, one of the regulatory agencies needs to be able to respond to the situation.
26. The Commission outlined its emerging view on a new quality standard for gas distribution where the first line of response to outages is reporting and the second step is an enforceable quality standard, which could be linked to a financial penalty.

The Commission is open to discussing if a penalty of some type is appropriate or necessary. However, the standard would need to be quantifiable for it to be enforceable.

27. There was general consensus that there is no problem with the current standard. The discussion below followed.
28. GasNet said that RTE is a clear, auditable standard and compared RTE to delivery pressure, which is different as the recording of delivery pressure can only be done statistically or when there is a fault. This will be an issue if the standard is not quantifiable and is complied with by statistically proving or disproving standards.
29. GasNet suggested that ID should only be used to demonstrate performance rather than be punitive. The ultimate test is to ask end users and large users. The Commission responded that it is obliged to publish the information so that consumers have access to information.
30. Powerco stated that it has a good relationship with its customers. In its latest AMP it identified three levels of customers – residential, small commercial, and industrial, who all represented a high level of customer satisfaction through recent customer surveys. Powerco noted that customers will let it know if they are unhappy with the service and they will disconnect from gas.
31. emsTradePoint asked whether the Commission had looked at overseas regulatory regimes.
 - 31.1 The Commission noted that comparison to overseas systems is constrained by the unique DPP/CPD regime in New Zealand.
32. MGUG raised the point that connection times could be a potential problem, but was not sure if this was a current issue or not.
33. MGUG noted that the workshop was missing the input from small distribution consumers – retailers.

The session ended with an out of scope discussion on pricing methodologies.

Attendees

Name	Representing
Rebekah Cain	Genesis Energy
Lyndon Haugh	Oji Fibre Solutions
Jelle Sjoerdsma	Maui Development Limited
Matt Wilson	Maui Development Limited
John Blackstock	Maui Development Limited
Jamie Patton	Maui Development Limited
Richard Hale	Hale and Twomey Limited
Ben Gerritsen	Castalia
Richard Fletcher	Powerco
Nicolas Vessiot	Powerco
Nathan Hill	Powerco
Sharon Wray	Contact Energy
Peter Thorley	Vector Limited
Richard Sharp	Vector Limited
Linda Thompson	Fonterra Co-operative Group Limited
Craig Sheather	First Gas Limited
Ryan Phipps	First Gas Limited
Steve Nicholls	First Gas Limited
Justine Cannon	Ministry Business Innovation and Employment
Paul Baker	Nova Energy
Chris Boxall	Greymouth Gas
Len Houwers	Major Gas Users Group
Mike Jonge	New Zealand Steel Ltd
James Whistler	emsTradepoint
Geoff Evans	GasNet Limited
Wayne Armishaw	GasNet Limited
Paul Moreno	Electricity and Gas Complaints Commissioner
Graham Phelan	Commerce Commission
Matthew Lewer	Commerce Commission
James Mulrennan	Commerce Commission
Rochelle Hill	Commerce Commission
Tricia Jennings	Commerce Commission
Tim Hewitt	Commerce Commission
Ian Wilson	Gas Industry Company
Ian Dempster	Gas Industry Company
Steve Bielby	Gas Industry Company
Sandy Thambiah	Gas Industry Company