

Current issues in gas market regulation

AC Fenwick

Acting Director Networks, Resources and Networks Branch, Ministry of Economic Development, PO Box 1473, Wellington, Telephone 64-4-474 2618, Email tony.fenwick@med.govt.nz

Abstract

On 6 November 2001, the Minister of Energy released a discussion paper, prepared by ACIL Consulting, on the New Zealand gas sector.

ACIL had been appointed to examine whether the gas sector is meeting the Government's objective that natural gas be delivered to users in an efficient, fair, reliable and sustainable manner. Their report reviews whether the current regulatory regime for gas is well designed to meet these objectives.

ACIL considers that the gas wholesale market, although adequate for the present, will be less suitable in the future as the Maui gas field declines. ACIL also concluded that there may be monopoly pricing in gas transmission and distribution.

The discussion paper is intended to provoke informed comment from New Zealanders on issues concerning the gas industry, to help the Government consider what action it might take to promote an efficient gas sector. Submissions are due by 31 January 2002, with an opportunity for cross-submissions by 22 February 2002.

The Petroleum Conference paper will remind the audience of the key points in the ACIL report and draw attention to some of the main issues coming through in submissions.

Author

TONY FENWICK is acting director networks in the Ministry of Economic Development. He has responsibility for advising the Minister of Energy on policy for the development of gas and electricity markets, and has been directly involved in the ACIL consultancy that is a key part of the Government's review of the gas sector that is currently underway.




Current Issues in Gas Market Regulation

Presentation to
 2002 New Zealand Petroleum Conference
 Auckland
 24 to 27 February 2002

Tony Fenwick
 Acting Director Networks


Overview of Presentation

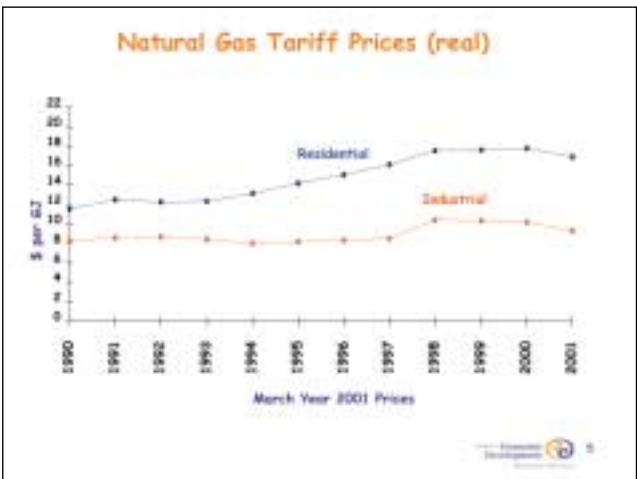
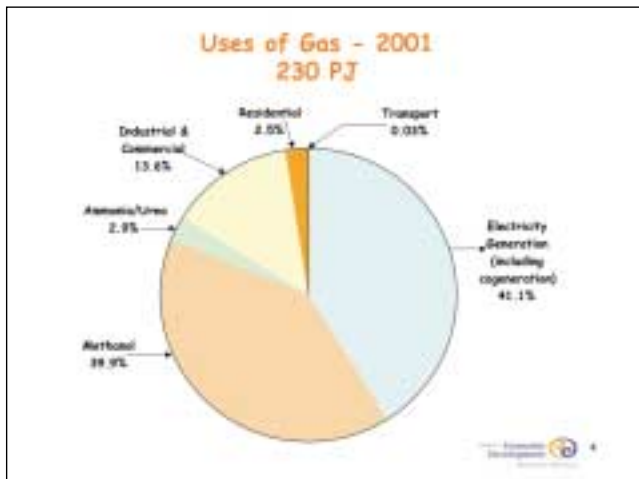
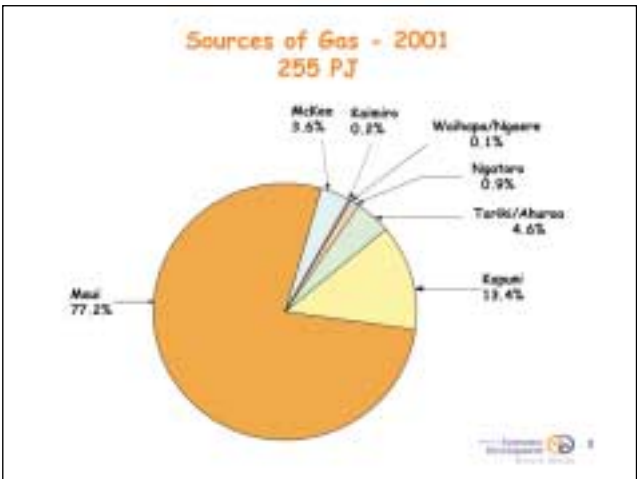
- Significance of the gas sector
- Why review the gas sector?
- Review process to date
- ACIL's efficiency criteria
 - Key issues in ACIL report
 - Transition to post-Maui environment
 - Efficiency in distribution and retailing
 - Possible way forward
- Process to come



Importance of the Gas Sector

- 30% of New Zealand's primary energy
- High quality, high value fuel for:
 - Gas fired generation (30% of electricity capacity)
 - Petrochemical use (Methanol exports - \$500 - 600m pa)
 - Industry - process & space heating
 - Domestic fuel - space heating & cooking





Why review the Gas Sector?

- > Government's overall energy policy objective:
 - "to ensure that energy is delivered in an efficient, fair, reliable and sustainable manner to existing and potential users"*
- > Government has reviewed the electricity industry and is implementing reforms
 - Ministerial Inquiry - David Coygill reported June 2000
 - Self-governance, backed by regulation power
 - Commerce Commission oversight of natural monopoly lines
- > Attention now turning to gas



Process for the Gas Review

- > Announced 15 March 2001
 - Comprehensive amendments to Information Disclosure Regulations put on hold
- > Competitive tender for consultants to prepare a detailed public discussion paper
 - ACIL commissioned late April
 - Consultants approached industry participants
- > Discussion paper released November 2001
 - Submissions due 31 January. 17 received. Posted on MED's web-site
 - 3 cross-submissions received 22 February, also to be posted



Characteristics of an Efficient Gas Sector

ACIL: An efficient New Zealand gas sector would have the following characteristics:

- Full competition in production, wholesaling and retailing
- Interconnected transmission and distribution system with clear rules for access
- Where natural monopoly exists, information disclosure and legal remedies to apply
- Absence of cross-subsidisation in vertically integrated companies
- Market signals encourage efficient allocation of resources along the gas supply chain
- Freedom of choice by all consumers
- Clearly defined safety and reliability requirements
- Environmental costs incorporated into prices



Transition to Post-Maui (2)

- > Should transmission be a separate corporate entity?
 - ACEL: Government could explore with NSC the possibility of corporate separation
 - NSCT should be separate (Powerco, Todd's, MEUS)
 - Further consideration required (NSC)
 - Similar consideration required re separation of Maui pipeline (NSC)
- > Does transmission pricing need revision?
 - ACEL: transmission pricing meets efficiency tests given limited injection points, but may need updating
 - Agree (Contact, Todd's and others)
 - NSC considers arrangements are evolving satisfactorily
- > Do wholesale market arrangements need improvement?
 - ACEL: present arrangements are workable in market dominated by Maui, but improvements now required
 - Broad agreement (Shell, NSC, Contact, United, Todd's and others)



Transition to Post-Maui Environment

- > Is competition between producers robust?
 - ACEL: Not a source of inefficiency
 - Producers: Agree
 - Downstream parties: Concern re ownership concentration (NSC, Contact, Genesis)
- > Should Maui, or well as NSC pipelines, be "open access"?
 - ACEL: Need open access across Maui and NSCT - this requires limited renegotiation of Maui contracts
 - Wide agreement
 - producers: promote new field access (eg Shell, Freestag, MDL, NZOG)
 - downstream participants: caveat - need to protect existing rights under Maui contracts (eg Contact)
 - Crown has dual role (ownership and gas market efficiency)
 - Crown has rights and obligations and will consider commercial proposals
 - Note: No apparent interest in negotiations re wider Maui issues



Efficiency in Distribution and Retailing

- > How much regulation is needed?
 - ACEL: light regulation only required at this stage: review after 3-4 years
 - Distribution efficiency is a concern (Contact, MEUS, Simon Terry Associates)
 - Favour information disclosure (Powerco, Contact, GANZ)
 - Profits need to encourage investment, consistent energy-wide approach required (Powerco, United)
- > Should pipelines be "ring-fenced" (corporate separation)?
 - ACEL: Government should encourage ring-fencing to promote retail competition
 - Agree: Contact, Genesis



- > Do multi-utilities introduce efficiency risks?
 - ACIL: Trend to multi-utilities should not be impeded, but tighter accounting rules required
 - Multi-utilities are efficient (Powerco, WEL)
 - Multi-utilities protect electricity, gas not marketed effectively (Genesis, United, Gas Appliance Retailers)
 - Vertically integrated gas companies do not compete effectively in electricity (WEL)
 - Entry of energy retailers impeded by difficulty in sourcing electricity (United)
 - Agree need tight accounting rules (Genesis)

Possible Way Forward

- > Is self-regulation viable?
 - ACIL: Government should encourage "voluntary decision making body" and establish clear objectives
 - Support self-regulation (Powerco, NSC)
 - GANZ initiatives noted (NSC, Contact)
 - Support issue of Government policy statement (Contact, Genesis, MEUS: "with consumer involvement")

- > How should pipeline assets be valued?
 - ACIL: Values between historic cost and ODV are OK, monitoring and independent review of ODVs suggested
 - ODV regulation required (MEUS, Powerco, NSC, Contact, Genesis, Wanganui, WEL)
 - ODVs have led to excessive profits (Simon Terry Associates, Todds)
 - Values too high. Bypass may remedy this, but too risky (Todds)
- > Should retail churn statistics be disclosed?
 - ACIL: Disclosure would highlight areas where competition impeded
 - Agree (MEUS, NSC, Genesis)
 - Not helpful (Contact)
 - Improved switching protocols required (Genesis, Contact, Powerco)

Process to Come

- Ministry considering submissions and cross-submissions
- Submission summary will be published
- Discussions with other officials also required
- Advice to Government will recognise:
 - National Energy Efficiency and Conservation Strategy
 - Climate Change
- Government expected to take decisions later in 2002