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The Executive Director
National Infrastructure Unit
The Treasury
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Via Email Only

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Gas Association of New Zealand Inc Submission to the National Infrastructure Plan

1. The Gas Association of New Zealand Inc (GANZ), represents the natural gas asset owners, covering gas transmission, distribution networks and the majority of gas measurement systems operating across the North Island. Of those companies - Vector, Powerco, Nova Energy and Gas Net Limited, some also own localised LPG distribution networks in the South Island.
2. In making the submission the GANZ recognises this is an invitation by Treasury's National Infrastructure Unit in its wider objective of developing a National Infrastructure Plan (NIP). To that end, the GANZ provides its submission to the points posed, being those pertinent to the gas industry and its wider interests as they cover a wider set of interests than just reticulated natural gas.
3. Some aspects of the submission are intertwined with far wider utility – infrastructure matters, where changes in one place have knock on affects in others. In that regard, the NZUAG and GANZ submission to the Utility Bill currently before the House are relevant and worthy of consideration for this work. Also, it would be useful consulting with the MED and the Energy Safety Group, both of whom GANZ has raised similar points with over the years, that are covered in the NIP paper.
4. The GANZ submission has maintained that approach – base assumption, that the national good can only be assured by setting performance indicators for achieving minimum compliance, competence and credibility, which themselves are translated quite simply to adequate processes, people and products, and all deliverables therefore being fit for purpose. Without these assurances then, regardless of any 'Plan', inherent risk exists that compromise the Plans objectives. In those cases the only innocent party is the consumer. Unfortunately as we have seen that party is the one who invariably pays for sub optimal performance, in all its guises. Examples of this are the leaky building syndrome, poor imported products which are price driven and thus have lower compliance, driven by the need for a more expansive free trade agreement regime. Hence the suggestion here is that central government lead and/or mandate quality assurance processes – protocols (national compliance standards) underpinning these policies. With that accomplished, and complimented with some focused performance criteria, the open market can better look after at itself within a light handed, self regulated, but competitive, commercial environment.
5. The format followed in our submission is to provide the overview and operational context of the gas asset owners, with some historical context. That is then built upon

as it considers their interdependence on the remainder of the market; and where that fits in the context of the NIP. From that, the questions that have been posed by the Unit are then answered.

6. The GANZ would like to thank the National Infrastructure Unit for the invitation to submit to the NIP paper. Should there be any questions please do not hesitate to contact the undersigned.

Overview:

7. The gas - infrastructure networks deliver natural gas to approximately 260,000 consumers. The average penetration for natural gas consumers across its length of about 11390 kilometres is about 40 percent. The MEDs Energy Data File also contains other useful information in this area.
8. Until the mid 1990's, these businesses were vertically integrated. Subsequent legislative change unbundled them into three groups; distribution – network and GMS owners, and gas retailers. They all now have varying electricity interests, and are better seen as integrated energy businesses. For some they have also branched into the communications business. It would seem fair to conclude therefore, that these companies are now best described as Multiple Utility – Infrastructure companies, operating in a relatively small market by international standards, yet asked to meet the challenges and/or objectives central government expects of them for the national good.
9. With respect to the changes in the natural gas structures, in some cases those are not ideal, and the gas industry may have reached far better growth patterns if the legislation of the 1990's had not happened.
10. Gas sales growth and/or residential and commercial connections in the past decade have not kept pace with that prior to 1999. Natural gas is a fuel of choice; which seems to be ignored by respective governments. Its importance to the 'NZ Inc' strategy seems to be recognised in nearly all the papers created about these related subjects, however, for a variety of reasons, natural gas seems constrained in its ability to fulfil those statements. Leadership for change is needed in this area if the gas industry is to come close to realising its potential within the NZ Inc. Is this Plan that opportunity?
11. The Auckland Regional Council's recent strategic long term planning acknowledges the contribution that natural gas should make. Yet the resulting fragmentation from the post 1997 legislative unbundling may have created more barriers, and sees a far less productive gas industry. So, where to now?
12. The GANZ would contend that insufficient investment is being made in natural gas throughout the value chain, even though its national value has been recognised. There seems to be a compromise between these objectives and those of energy retailers which again was a natural consequence of legislative restructuring in the 1990's.
13. At this point it is critical to acknowledge that the asset owners GANZ represents are multi utility networks, delivering goods in a supposedly open and commercially driven markets, where, given New Zealand's unique demographics – population, they are predominantly local monopolies, where bypass is the exception rather than the rule. Does that matter? With open access, gas – energy retailers should be able to retail anywhere. Urban dwellers will clearly have an advantage over rural ones. Those closer to the prime source – “distance dependent” may have advantage of more populated areas. But these are self levelling factors, needing growth innovative thinking, not 'sinking – shrinking lid' attitudes, which drive away investment, which would be contrary to the NIP objectives?

Utility and Infrastructure Context

14. With gas being mixed in with the wider utility structure, it not only has to operate within it, but also coexist operationally within the Territorial Authority (TA) environments who own and operate perhaps the largest set of national infrastructure. Within that TA structure, they set the rules by which other utilities are able to operate, yet also look to compete for similar services when they feel like it, such as communications. They hold sacred water. They also operate within their own legislation, which is not always conducive to the 'NZ Inc' objectives. In fact, quite the opposite when it comes to productivity and performance criterion, which is placed on the likes of gas distribution companies but not on them. Surely there is no greater monopoly than Local Authorities, but they are not subject to the same legislation and/or performance criteria as others. This should not be ignored in the NIP work.
15. The GANZ would recommend that in looking to create a National Infrastructure Plan (NIP), it would be useful to first invest in obtaining an accurate understanding of what barriers exists across the entirety of fuels – infrastructure delivery value chain and that across utility centric businesses. Like any plan, especially those investing in assets, the "plan" will be flawed from the outset if these factors are not addressed from the outset.

Legislative Consistency – Utility Centricity

16. Regulation is a prime example of too much for too little return. Some gas asset owners are economically regulated, others are not. Is this level of regulation any longer warranted anyway? Is it applied even-handedly across the sector? Is it applied with the same rationale across similar utility infrastructure; if not why not? NZ Telecom was reported recently as being expected to provide costs subsidisation between urban and rural customers for broadband roll out. This would be unacceptable in the natural gas businesses, but we see it everywhere such as airfares. So, have we got this approach in context with the needs of NZ Inc?
17. Gas is noted as a nationally key fuel, why shouldn't these requirements be applied similarly to it. Remove regulation, push away growth barriers and at the same time require growth performance targets.
18. Asset owners' operational support structures have changed so much in the past two decades, especially across service support, maintenance and contingency planning functions, that it's unlikely to be reversed. This is a critical factor to consider in creating a National Infrastructure Plan – the underpinning skills and resources. Nearly all the asset owners have outsourced operational functions. In many case it is the same principal consultants – contractors as other utility owners' engage. Whether that is cost efficient is not relevant to this submission. What has to be considered is the reality of that separation between asset owners and their principal contractors; and the trickle down – knock on affect when those services are out sourced even further. Sometimes that is at another two levels being two other services providers – contractors, that work in the public corridor, interface with consumers and become the face of a companies 'technical service – operational' performance. Call centres and multi purpose 'pipe – conduit' laying companies are such examples. In such operating environments, risks across product, performance and processes, differ to those when resources are in-house. Competency assurance will be a key factor.
19. Infrastructure owners, service maintainers, support services, contingency – emergency response staff, are in many cases, now all separate businesses. Yet they all operate in the same 'space' and often are the same service providers contracting across multiple asset owner companies and/or Local Authorities. Unless some thought is given to the underlying factors to offset risk while meeting these objectives, the NIP may inherit an immediate weakness.

20. Because of the diverse interests of its membership, where the difference across them is solely technology – not the underlying processes, the GANZ has actively pursued a utility centric approach to its strategic and operational thinking for a decade. This has seen it assist with legislative change in the “energy – gas and electricity” legislation within which it falls. It has also taken that proactive approach to create and support the NZ Utility Advisory Group, where a Utility Bill is currently before the House. That Bill has links with the NIP, as does the gas and electricity legislation which sets the minimum requirements for delivering the respective goods and services to protect public safety, property and product compliance.
21. It achieves this in a relatively light handed, performance based self regulatory environment, for a supposedly competitive gas market. There seems little reason not to apply this style across all “Utility – Infrastructure” centric legislative environments, thereby creating structural consistency and leadership to underpin the NIP.
22. The respective members of the NZUAG are clearly indicating in their submission to the Bill, as raised earlier, that such an operating environment does not exist sufficiently now. Furthermore, as the various “utilities’ have changed their business structures in the past twenty years, be they solely changes in ownership, it’s likely the drive for better shareholder returns sees less attention paid to the underlying information – asset management information tools necessary to support a market where they are more critical to support such diversity of commercial interaction and existence of free markets. The impact of a lack of ‘open’ asset management processes and/or spatial architecture, sees unnecessary barriers to infrastructure management appearing. If the NIP is to have a underlying delivery feature, it has to be in the knowledge that its infrastructure management is as world class as its NZ Inc – NIP objectives. Otherwise the investment will only succeed short term.
23. The relevance of raising this is about asset ‘roll out’ credibility for the NIP. If the Plan is to be successful, that success is measured on the durability and resilience of its delivery. It is important to recognise therefore that the underlying processes and protocols that support the Plan set the foundation for performance delivering for the respective goods and services they deliver and the carriage mechanisms and logistics which they employ commercially. If subsequent problems arise with carriage, be that inherent product or system failures due to sub standard assets, poor roll out, or poor maintenance, and third party interference due to poor national asset location data and information sharing, then the compliance of any ‘rolled out’ infrastructure is simply inadequate. This not only spans identifying base line asset location, but those maintained and serviced, and is quite easily expanded to meet the growth objectives.
24. New Zealand has a poor record in this utility asset information sharing area; which, given the commercial structures now existing across the utilities,, seems to necessitate some centralised national processes and protocols, that competing agencies might otherwise be less inclined to offer and/or deliver. They may be inclined to suggest their information is commercially sensitive. This lack of national protocol is often blamed on tight roll out performance contracts, or a tight employment market, or under-skilled cross trained utility specialists. Without an incentive and/or investment in that area, the consequential impact costs, which are often expressed later when assets fail, are simply absorbed by the consumers one way or another. This is unacceptable and compromises productivity which needs to be measured by its durability.
25. The NIP could simply apply some solutions to overcome these hindrances where much of the information is actually publicly available and already paid for by the tax payers one way or another. These are typical ‘investment areas” for PPP arrangements, but are under used.

26. Because of the clear business split between the “utility – asset owners’ and the now more multi purpose service and product retailers, operational costs for both parties, especially those under economic regulation and other such operational constraints, see the entirety of the ‘Utility – Infrastructure’ community strained to meet its common NZ Inc objectives. This surely sees the consumer unable to realise the enhancements the NIP is aimed to achieve. Equally, for some businesses, is the New Zealand market adequately sized to actually deliver the variety and diversity the government aspires too?
27. For infrastructure - asset management, someone needs to consider creating and enforcing a national standard to ensure that gap is breached and resilience and durability is better achieved, and assured. Even if something fails, we will at least be able to find it, repair it and not hinder others in that process. This need not be a heavy handed piece of legislation to deliver the underpinning objective. Merely one that openly incentivises asset owners to use and share asset data across the interested parties in an open information sharing protocol. The ISPs for internet and communications seem to have no difficulties in this regard, but when it comes to that for all other infrastructure we have barriers appearing. The best leaders for this should be the Local Authorities, Land Information and the Department of Internal Affairs (DIA). As caretakers of the utility – infrastructure corridor, and as owners of the water and roading assets, New Zealand has nothing to lose and everything to gain. Simply put, if 73 TLAs put their minds to it, with the by embracing a “iGovt’ in a geo spatial sense, then with DIA, these matter could be resolved in a relatively short time. This would unlock and lead a change in what is a significant attitudinal barrier to achieving the NIP and enhanced productivity.
28. Coupled with such a spatial – national infrastructure information exchange and management protocol tool, other matters of compliance and competence that also detract from our ability to adequately support the NIP, would also be removed. Then, with some well targeted NIP performance reporting, the NIP would help ensure credible delivery.
29. The GANZ therefore support the objectives of the NIP, but has significant concerns about the ability to deliver them without first considering the above points. In particular the undying tools and protocols that must exist to support it. Without them, the ability to see the basis infrastructure objective delivered with maxim credibility and minimum risk are not so assured.
30. To that end, consistency across the respective legislative structures that will assist in attracting investment, offer assurance of legislative consistency long term, that then underpins the infrastructure plan is paramount.

The National Infrastructure Plan

31. Using the NIP for reference, together with the purpose statements, the NIPs coverage statement, and considering the preceding comments, the questions that have been asked are addressed below with some additional summary points. In making its submission the GANZ has focused mainly on what underlying processes – “tools” are needed to underpin the delivery of any such Plan, and the investment necessary for the direct use of gas benefits. They are made in the context that the national asset ownership structures for gas, electricity and communications is unlikely to change.
32. It would note though, that operationally, consistency across all asset owners and/or infrastructure is particularly important, if barriers are to be either removed and/or not reappear in other forms. That means that Territorial Authorities must be covered in the NIP, at least for the water assets and the public corridor. Similarly, areas of the railway property footprint – need attention.
33. In the final observation, it will be interesting to see how many respondents are challenged by the willingness to embrace a need for a NIP, which surely has its

foundation in a NZ Inc. Therefore it seems fair to ask what the NZ Inc strategy is, and who and how that is both articulated and delivered. The relevance of this is to ascertain whether the combined utility – infrastructure is wedded to the national good and welfare as their first objective.

Infrastructure is usually defined as fixed long-lived structures that facilitate the production of goods and services, both physical and institutional. The National Infrastructure Plan will focus on the physical infrastructure of national significance that has a direct impact on productivity and living standards. The capital-intensive sectors of government (health, education and corrections) will also be covered.

The purpose of the National Infrastructure Plan is to present a high level view of the state of New Zealand's infrastructure, describe the principles and direction of future investment, improve alignment between national and regional planning, establish greater discipline around infrastructure decisions, and increased public awareness about the role that infrastructure plays in supporting and raising the nation's living standards. It should ultimately inform the reader on the three topics;

- The state of the infrastructure at present, and what kind of challenges it poses;

Reply: the balance between national driven outcomes and shareholders requirements.

Also, is government sure of the state of infrastructure;

Is it well maintained?

Is sufficient capital investment being made, if not why?

Is economic regulation warranted – is there another way?

Is it resilient and prepared for a contingency?

Is there a lack of clear and consistent legislation; where multiple jurisdictions simply add to compliance costs, with no benefits?

- What improvements is likely to occur on the basis of currently committed projects and policies; and

No comment.

- What sort of infrastructure New Zealand needs to achieve and support ambitious economic growth and quality of life targets; and how much of a gap there is between the committed improvements and what we would need to see to lift New Zealand to a higher level.

Reply: one where there is a value in being in the business – sensible return. Investment is warranted, drivers on growth and performance drivers not legislatively constrained.

Underlying support processes and protocols that empower performance and embrace technology.

The existence of a “NZ Inc” Strategic Plan that is set for 20 years, with 5 year review and performance reviews, which is party neutral, underpinned by the NIP and supporting delivery tools. These need to have sensible pan industry performance criteria.

Better data collection across the entire industry.

34. The GANZ has assumed in its submission that the government still advocates:

Open competitive markets providing competition and choice:

- Less Regulation, rather than more
- Enterprise, growth and productivity

35. Summary of observations:

- The Plan should, by its objectives, set an overarching strategic direction that other related initiatives; like NZUAG Corridor Access Bill & National Code link to.
- National tools that assist in showing asset locations, assist in public corridor works coordination, and work with related process, which actually dovetail in the Govts geo spatial strategy need to be recognised – the ‘how’!
- Urgent identification of areas that are less productive – hinder the Plans’ outcomes, particularly investment; which should be an urgent look at the value/objective for the national good of economic regulation of gas asset owners.
- Some of the above are key factors in the helping deliver the broadband outcomes the nation needs.
- Coordinated planning to assist delivering the strategic direction; which will necessitate the utility community also agreeing to some centralised objectives, with better delivery and/or management tools.
- In all this; competency must be a significant component, which seems to have been overlooked. Upskilling and/or related trade training, with cross skilling, seem a key aspect to be addressed. Competency is the foundation of all we deliver!

36. Specific Questions raised in the paper:

Base information: Is the sectoral analysis an accurate and informative description of the sector? If not, what changes are required to make it so?

- *Distribution network lengths are well understated.*

Missing issues: Are there important infrastructure issues not mentioned?

- *The importance of the direct use of gas and increasing exploration activities needed to maximise the benefits of gas use to NZ has been mentioned.*

Decision-making: The document suggests that for projects to contribute to community/national welfare and economic growth, they must have expected benefits (measured comprehensively) that are greater than their estimated costs (also measured comprehensively) – see the decision-making principles in the ‘Policy Context’ chapter. As well as considering distributional or equity considerations, are there other considerations that should be taken into account and if so, what is the case for that?

- *The direct use of gas seems to fit here also. But the diversity of utility owners, as asset owners, is likely to be more consistent than the utility – service retailers, which therefore dictates a need for assuring good performance. Those retailers will look to deliver their “products’ across open access networks. All parties, now outsourcing their support services, should equally have assurances that utility logistics support are equally being supported via open processes – otherwise outages may plague the Plan and/or poor recovery times impact our national and international business performances. This overlaps with cross-sectoral considerations,*

Cross-sectoral issues: What cross-sectoral issues are faced by operators/users of infrastructure in each sector? A number of cross-sectoral issues are identified in the document but are there others that should be included in a National Infrastructure Plan?

- *DUOG could reduce electrical sector capital spend and provide customers with a relevant alternative energy pricing benchmark. Multiple fuels helps provide inbuilt infrastructure resiliency.*

Regulatory reform: Are there important regulatory constraints on the development of infrastructure that are not being addressed by the government's current regulatory reform programme?

- *The need for price control outcomes to appropriately incentivise future investment recognised by recent section 4a changes to the commerce act.*
- *Also, our utility and infrastructure markets are far too complex. Little real uptake on e-business.*
- *Too many regulators and departments. The GANZ members operate across some 13 Departments, when they could be half that number as principal departments; in fact two; public property space (utility department) and private property space (DBH)*

Aspiration: For each infrastructure sector, is it possible or desirable to define the service level New Zealand should aspire to? If so, what should it be and why?

- *Greater DUOG to help environment,*

Link to economic growth: What additional investment would help New Zealand to increase its rate of economic growth? How can we be confident that this additional investment is a prudent use of scarce funds?

- Direct use of gas helps maximise economic value, and helps establish a strongly competitive energy benchmark for others to chase.
- Greater investment – performance creation inviting better PPP opportunities.
- Better underpinning infrastructure support protocols which otherwise serve as barriers to asset location management.
- Link investment with set performance criteria. For the item above, reduced third party interference would assist, where currently it reduces productivity and where transgressors seem to care.

Yours sincerely

Gas Association of New Zealand Inc

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