



15 April 2009

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By email:

Dear Ian

Application of Gas Governance Arrangements to Private Networks – Simon Terry Associates paper dated February 2009

Contact Energy is of the view that irrespective of the type of distribution network to which particular customers are connected, all customers are entitled to the same benefits and protections which gas governance arrangements provide.

It is difficult to see how a bypass network should enjoy a perpetual right to free-ride simply because of its bypass status, particularly where significant gas load has moved from the current open access network to the bypass network.

In its paper Simon Terry Associates has identified a number of areas where exemption from regulations is not appropriate. Regulations in these areas are necessary to protect the interests of consumers. These areas include:

- the application of the "essential facilities doctrine" to bypass networks;
- specification of standard terms and conditions for retail supply contracts;
- the structure of retail tariffs;
- the impact of price spillovers from bypass markets to the wider gas market;
- provision of information necessary to monitor the efficiency of the supply chain;
- provision of an efficient, reliable and fair customer switching process that ensures painless connection and disconnection arrangements at all consumer levels;
- maintenance and access to customer records;
- sharing of common costs such as the costs of switching regulations; and
- disclosure of UFG.

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There is a clear need to rethink the blanket exemptions that continue to be granted to private networks.

In terms of the Gas (Switching Arrangements) Rules 2008, Contact does not believe that there is a significant compliance burden, or detriments to the effective functioning of the gas market, that would justify bypass network owners being granted privileged status with respect to registry participation and the associated transparency of information.

Nothing in the paper suggests Contact should amend its 10 March 2009 submission on the exemption application SW08-11-T, which sought exemption for Nova Gas for its bypass networks and associated ICPs from rule 41 of the Gas (Switching Arrangements) Rules 2008.

In terms of the Gas (Downstream Reconciliation) Rules 2008, Contact acknowledges that as bypass networks are not open access, and there is no requirement for allocation of gas gate quantities and UFG to multiple retailers, the reconciliation rules should have limited or no application with respect to bypass network owners.

Contact sees benefit from disclosure of UFG information for bypass networks, given that the information would:

- provide a useful benchmark for open-access networks;
- help identify potential physical connection and allocation of ICPs (and associated gas quantities) to the wrong network, which is known to have occurred on the Whangarapaoa Peninsula bypass network; and
- help identify potential allocation of bypass gas gate metering errors to the open access network where the open access network injection quantity is calculated by difference between an upstream meter and the bypass network meter (e.g. Tawa gas gate).

However, it is not clear how this transparency could be achieved under the rules, or how an issue would be resolved if detected.

Yours sincerely

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