

G005

29 July 2011

GasNet Limited
8 Cooks Street
PO Box 7149
Wanganui 4541

Senior Adviser
Gas Industry Company Limited
PO Box 10-646
Wellington

Telephone; (06) 349 2050
Fax; (06) 349 0135
www.gasnet.co.nz

[By email]

Attention: Melanie Leonard

Dear Melanie

Submission on Draft Principles for Arrangements on Gas Distribution Systems

Thank you for the opportunity to make a submission on the Gas Industry Company's ("GIC") Draft Principles for Arrangements on Gas Distribution Systems ("Draft Principles"). GasNet's comments have been drafted in the format requested and included as an attachment.

GasNet supports the introduction of high level principles and in particular, the GIC view that regulation is not required at this time. In doing so, it is appropriate to make reference to the significant regulatory uncertainty under which the Company is now operating.

The consequences of the price-quality regulation that takes effect in 2012 have yet to be fully quantified or completely understood and whilst they will become clearer within the next 6-12 months, the real impact may still not be fully realised until much later. Although this is unlikely to prevent us from satisfying the Draft Principles, it does have the potential to constrain us in the provision of flexibility in the services we provide and how we set prices for those services. There is additional risk of overlap between the price-quality regulatory regime and the GIC's role, but we are optimistic that the GIC will take a pragmatic approach if, or when, such instances occur.

I would also like to take the opportunity to explain GasNet's position in regard to updating its existing Distribution Services Agreement ("DSA") with retailers, specifically with reference to comments made within the paper to the current situation where contracts are out of date and/or expired - a position to which GasNet is not immune. The development, review and consultation process around our draft DSA has occurred during periods of significant change both within the industry and from a regulatory perspective.

I do not wish to appear negative, but the various GIC initiatives (protracted review of distribution system access arrangements first proposed in 2005, potential development of guidelines and model contract arrangements, switching/registry and allocation arrangements) have all provided sufficient uncertainty at different stages to warrant a delay in GasNet finalising its position and consulting with the retailers on a new DSA. It is unfortunate that at the same time we finalised and consulted on our most recent draft in 2010 (which had been developed after the switching/registry and allocation arrangements were well established and accommodated with the draft

DSA), the Commerce Commission ramped up its activities significantly, which placed pressure on resources and forced a change in priorities.

In summary I would like to affirm that GasNet is committed to updating its current DSA as soon possible and acknowledges the need to accept that the very operational, commercial, and regulatory issues that have hindered progress in the past, are inevitably going to continue into the future in one form or another. We are going to have to manage change within a changing environment.

With respect to confidentiality of this submission we do not consider any comments to be commercially sensitive.

Should you wish to discuss any aspect of our submission please do not hesitate to contact me either by phone at (06) 349 0131 or by email at geoff.evans@gasnet.co.nz.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Geoff Evans', written in a cursive style.

Geoff Evans
General Manager

Consultation Paper: Draft Principles for Arrangements on Gas Distribution Systems

Submission prepared by: Geoff Evans, General Manager, GasNet Limited.

QUESTION	COMMENT
<p>Q1: Do you have any comments on the proposed purpose and definitions for the principles?</p>	<p>GasNet considers that the principles should apply to Network Services only and exclude GMS/metering. GMS services are provided in a competitive market by a variety of organisations that are not all network operators. Although it is reasonable to expect Distribution Service Arrangements to be in the public domain, the same cannot be said for GMS given the competitive environment within which they operate. However if GMS remain included where provided by a Distributor, then all other GMS service providers (who are not Distributors) should be required to satisfy the same principles.</p> <p>On a minor point, reference is made in the paper to TSO which is not defined.</p>
<p>Q2: Do you have any comments on the proposed General Principles?</p>	<p><u>Principle 1:</u> Agreed. GasNet has operated under the principle objective of the voluntary Gas Pipeline Access Code 1998 by continuing to provide neutral and non-discriminatory access to its distribution systems to all retailers. All retailers trade under the same terms as each other and operate under the same, albeit dated Distribution Services Agreement. GasNet has not yet concluded implementation of its updated agreement and anticipates potential issues with retailers having potentially conflicting requirements resulting in an inability to reach agreement with all retailers under exactly the same terms. The proposed principle appears to be less onerous than the Gas Pipeline Access Code, under which we have operated, which if intended, may assist GasNet in reaching agreement with all retailers under terms that are "substantially similar".</p> <p><u>Principle 2:</u> GasNet questions whether reference to the Consumer is necessary. The retailers operate in a highly competitive market focussed on the provision of service(s) to the consumer. GasNet is similarly focussed on the provision of service and the potential impact on its business on the price that it charges for its services. If GasNet and the retailers do not consider the needs of the consumers it will be to the detriment of our respective businesses.</p> <p><u>Principle 3:</u> GasNet agrees that the arrangements should be reviewed regularly but questions the inclusion of "comprehensive" which has no relationship to whether the agreement is up to date or not. The other principles (which in some instances refer to the need to be comprehensive) will ensure that the agreement addresses the specific aspects.</p>

QUESTION	COMMENT
Q3: Do you have any comments on the draft 'obligation and rights of parties' principle?	Agreed, although the example provided under the note should be deleted. The matter is an industry issue that is as yet unresolved. GasNet does not wish to address its specific concerns with the example's solution.
Q4: Do you have any comments on the draft 'distribution services provided' principles?	No.
Q5: Do you have any comments on the draft 'Pricing including pricing changes' principles?	No.
Q6: Do you have any comments on the draft 'commencement and cessation of line charges' principle?	No.
Q7: Do you have any comments on the draft 'disconnection and reconnection' principle?	No.
Q8: Do you have any comments on the draft 'information exchange and use' principles?	<p><u>Principle 12:</u> GasNet supports the prompt resolution of mandatory standard industry wide file formats for the exchange of information and strongly encourages the GIC to facilitate this.</p> <p><u>Principle 13:</u> GasNet considers this principle too limiting. The information request should relate to the provision of information that is reasonably required by one of the parties to carry out its obligations under the Distribution Service Arrangement.</p>
Q9: Do you have any comments on the draft 'service interruptions' principle?	No.
Q10: Do you have any comments on the draft 'managing critical contingencies' principle?	Although GasNet agrees with the Principle it disagrees with the second paragraph of the Explanation. The example of Consumer usage monitoring and/or disconnection services outside the core distribution system services and as such it should be up to the parties to agree whether it forms part of the Distribution Service Agreement or a standalone agreement. Variations such as that suggested by the example, could result in multiple variations of the Distribution Service Agreement resulting in inefficiencies in their administration, in addition to testing Principle 1 and what constitutes "substantially" similar.

QUESTION	COMMENT
Q11: Do you have any comments on the draft 'publication of the standard distribution agreement' principle?	GasNet supports the public availability of standard distribution agreements.
Q12: Do you agree that an assessment should take place approximately six months after the principles are finalised?	Yes, although GasNet questions the cost benefit of undertaking a review if the parties in general, are in agreement.