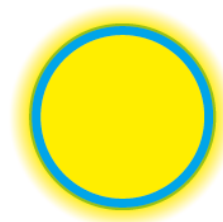


10 May 2012

Submissions
Gas Industry Company
PO Box 10 646
Wellington
New Zealand

[Submission uploaded to: www.gasindustry.co.nz]

POWERCO



Dear Ian,

Powerco Submission on Distribution Contract Principles: proposed design of the assessment framework

Introduction

1. Powerco welcomes the opportunity to comment on the Consultation Paper: *Distribution Contract Principles: proposed design of the assessment framework*, published by the Gas Industry Co (GIC) on 29 March 2012.

Powerco supports the GIC's work on principles for arrangements on gas distribution systems and the proposed assessment framework

2. Powerco recognises the potential benefits that contract standardisation in the industry can deliver and is supportive of the GIC's work on the development of principles for arrangement on gas distribution systems (the Principles). Powerco was represented at the GIC's industry workshop on the proposed assessment framework on 27 April 2012 and believe all the industry participants in attendance clearly agreed with the GIC that a regulated approach was unnecessary, and that in general the proposed assessment framework was appropriate.

Powerco support for the proposed assessment approach

3. Powerco considers the proposed assessment framework has correctly been developed with a high level focus on the alignment of distribution service agreements with the Principles rather than individual clause alignment. We see this as an essential factor to the future success of assessments and believe the GIC and independent assessor should ensure participating parties focus on the this rather than providing detailed clause specific comments. This will ensure the assessment process remains cost effective and does not impose increased burden on industry participants.

Initial assessment timing

4. Powerco is in the process of developing a new standard distribution service agreement. This is a complex piece of work that we are currently consulting on with industry participants and aligning to other related work currently being conducted by the Electricity Authority and Commerce Commission. The conclusion of this work will provide us with a robust agreement that we believe will align with the Principles, industry best practise and retailer requirements. With this in mind, we see no benefits spending GIC, retailer, distributor or assessor time and resources assessing current, legacy or in development agreements and recommend that the initial assessment should occur in early 2013 rather than late 2012. This will ensure that a mature, consulted on draft is available for assessment while still fitting in with the GIC's 2012/2013 budget.

Alignment to Electricity Authority standardisation work

5. Retailers' have reacted positively to the approach we are taking regarding the development of a new standard gas distribution agreement, this includes utilising learnings and generic content from the Electricity Authorities Model Use of System Agreement standardisation work. However, while we need to ensure that we look for alignment for efficiency purposes we also need ensure that we don't focus on standardisation over the specific needs of the gas industry.

Conclusion

6. Thank you for the opportunity to make this submission. If the Authority wishes to discuss any aspects of this submission further, please do not hesitate in contacting me on 06 757 3397 or oliver.vincent@powerco.co.nz.

Yours sincerely,



Oliver Vincent
Regulatory Analyst
Powerco

ANNEX A –

Powerco Submission on Distribution Contract Principles: proposed design of the assessment framework

Question	Comment
<p>1. Do you have any comments on Gas Industry Co's work thus far on distribution arrangements?</p>	<p>Powerco supports the current work by the GIC on distribution arrangements and agree with the conclusion that regulation is not required. We support the proposed principles and believe they align with the legislative context and will achieve the stated GIC objectives.</p> <p>Powerco is however disappointed that the GIC have restated in the current consultation paper that '<i>distributors have been slow to update contracts with retailers</i>'. This seems to apportion blame both unnecessarily and disproportionately on distributors who face similar levels of risk as retailers when an agreement is expired.</p> <p>The GIC has correctly identified issues with retailer – distributor arrangements in the consultation paper and if reasons for the existence of these issues needs to be stated the various sales, mergers and acquisitions that took place in the gas sector reforms of the 1990's should be identified as the key factor.</p> <p>Powerco recognises that expired, legacy and regional specific agreements between retailers and distributors exist and have been working towards addressing this by developing a new distribution services agreement model. This is a resource and time intensive process but one Powerco are committed to.</p>
<p>2. Do you have any questions or comments about the legislative or strategic context for this work on distribution arrangements?</p>	<p>No, we strongly believe that the non-regulatory solution proposed by the GIC to address distribution arrangements meets the regulatory objectives stated in the consultation paper and is the best approach for both distributors and retailers.</p>
<p>3. Do you agree with the assessment framework proposed? If not, please provide suggestions for improvement or amendment.</p>	<p>Yes. The structure of the assessment framework provides the flexibility to assess distribution arrangements against the principles without being labour intensive or costly for any party. The rankings, if consistently applied, will provide an indication of alignment and are suitable for use against groupings of clauses.</p> <p>Powerco would like to note that our support for the proposed assessment framework is based on the approach that it is the distribution service agreement at a high level that is being assessed against the Principles rather than each individual clause.</p> <p>Powerco currently shares revised agreements with all retailers and as such we have no objection to publishing our most recent standard</p>

agreement on our website or participating in the process of sharing with an independent assessor. We also support the proposed approach of reporting the first results at a consolidated level and with distributors identified in subsequent assessment results.

We do not anticipate significant work occurring as a result of responding to distribution alignment issues identified against the Principles by retailers. This is based on our experience of negotiating new agreements showing that there are only normally a limited number of clauses that require negotiating with retailers and these tend to be the same clauses. If the assessment process resulted in a response being required for a significant number of we believe that conducting a cost benefit analysis would be prudent.

Powerco supports the principle of annual assessment but proposes that the initial assessment should take place in early 2013 rather than late 2012. This recommendation is based on the following reasons;

- development of a new agreement is a time consuming processes due to the drafting and legal reviews required,
- drive for efficiency savings by aligning to outcomes of other contract related work streams i.e. Electricity Authority work on Model Use of System Agreements, and,
- ensuring that the initial assessment is of an agreement that will not be superseded shortly.

As there are cost and time implications to the GIC and participants associated with conducting assessments, careful consideration has to be given to not rushing into conducting the initial assessment if maximum value is to be realised from the exercise.