

Submission from: Charles Teichert, Nova Gas Ltd

Question	Comment
<i>Q1: Do you consider that the exemption sought for Nova's bypass networks should be granted? Please give your reasons.</i>	Yes. For the reasons given in the exemption request by Nova.
<i>Q2: Do you consider granting an exemption is desirable to better achieve the objectives set out in section 43ZN of the Act and the purpose of the Rules?</i>	Yes.

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<p>Q3: Do submitters have any other comments on the application from Nova seeking exemption from the allocation of gas for its bypass networks?</p>	<p>Regarding Section 3: Issues for Consideration, Nova Gas makes the following comments:</p> <p>1) Benefits of applying rules to Nova’s private network:</p> <p>a. Potential metering issues and UFG. The GIC suggests that there is value in applying the reconciliation rules to Novas private network is that UFG can be actively monitored especially in the situation of Tawa A which is metered by difference.</p> <p>Nova’s exemption request (which is without prejudice to its position that the Reconciliation Rules do not actually apply) is limited to those rules that require it to submit data to the Allocation Agent. Audit provision rules (65-75) are not included in the exemption request and would be available to the GIC so that issues such as misallocation of customers between networks can be identified and addressed.</p> <p>b. assist competition through transparency of UFG and quality of consumption data</p> <p>Nova submits that as customers are billed on metered volume at the premise of the customer, UFG is irrelevant to the consumer. Metered volumes are not adjusted by UFG which is instead accounted for in gas prices. Gas prices themselves are determined through competition and negotiation with the customer.</p> <p>UFG is only a relevant issue for consumers on <i>open access networks</i> as all retailers are allocated a share of that UFG and are competitively neutral (ie no one retailer is at an advantage in relation to supplying a customer as UFG is unavoidable). That is not the case when there is competition between two pipelines that have different levels of UFG.</p> <p>It is also important to note that consumers receive protection under the Gas Act in relation to metering and billing data quality and indeed there are regular audits of metering compliance with the Gas Metering standards NZS 5259:2004 by the Energy Safety Service.</p>

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	<p data-bbox="517 300 1166 331">2) Auckland Gas Company and Nova Gas customers</p> <p data-bbox="517 383 1362 506">The GIC has raised a potential discrepancy in Nova's claim that its pipeline is for its use only in that for the month of June only where data was submitted on a without prejudice basis, AGCL a subsidiary of nova submitted consumption data:</p> <p data-bbox="517 557 1401 808">The fact that a wholly owned subsidiary of Nova Gas is responsible for the various customer service processes we believe is irrelevant with respect to the exemption request. Naturally, if that structure was to change through sale of AGCL to a third party for example, then Nova could not say that it was distributing gas only for itself which for the purposes of this exemption includes wholly owned subsidiaries as well as Nova Gas. The issue of separate legal entities is also irrelevant on the principle of "piercing the veil".</p> <p data-bbox="517 860 715 891">3) Competition.</p> <p data-bbox="517 943 1390 1032">In response to the statement that many economists regard duplication of monopoly assets where there is spare capacity as inefficient we make the following comment.</p> <p data-bbox="517 1084 1394 1431">Competition is the best means of ensuring that sufficient capacity is available for the benefits of consumers and that the pricing of capacity is efficient. Natural monopolies do exist in some situations and in many of those situations, to curb monopoly rent taking, regulatory price control has been imposed but this is not an optimal outcome if competition is a viable alternative. Most economists and competition regulatory bodies recognise that regulation of monopolies is an inferior outcome to competition. To the extent that competition is workable or changes within industries occur through time such that competition does become viable, then we believe that regulatory bodies and economists would support the view that unnecessary barriers to potential competition should be avoided.</p> <p data-bbox="517 1442 1374 1632">We note that the Gas Industry Company has tended to paint the request by Nova Gas as a "subsidy" to support competition whereas Nova has always referred to imposing the regulatory requirements (which yield no benefits for consumers or Nova) as only adding costs and therefore creating a barrier competition with open access networks which clearly require and benefit from the allocation process.</p> <p data-bbox="517 1684 807 1715">4) Costs of compliance</p> <p data-bbox="517 1722 1398 1845">In addition to the costs of compliance disclosed confidentially to the Gas Industry Company in Nova's previous exemption request, it has also become apparent that there are additional costs of compliance that will fall upon consumers on Nova's pipelines.</p> <p data-bbox="517 1897 1402 2054">Nova does not require TOU metering of some of its customers sites that consumer more than 10TJ's per annum. This typically occurs where customers are only marginally above the 10TJ threshold. From Nova's perspective there is no benefit in receiving daily data for consumer sites as its allocated quantity is determined by the gas gate meter.</p>

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	<p>TOU metering and the 10TJ threshold is mainly a functional requirement of allocation in an open access environment where TOU information is an important ingredient in creation of the seasonal shapes and ability to allocate non TOU metered consumption on a daily basis among multiple parties.</p> <p>To be compliant with the rules Nova would need to install and customers would have to pay for incremental costs associated with TOU metering and data collection.</p> <p>Note that there is no sacrifice of metering data quality under such situations as interval meters compliant with the metering standards are used in all circumstances.</p> <p>5) Single retailer gates</p> <p>With respect to statements regarding application of the regulations to single retailer gates, Nova believes that the difference between single retailer gates and private networks is that single retailer gates on an open access network do contemplate the possibility that a single retailer gate may change through time through the customer switching process.</p> <p>It maybe that the GIC logically could also approve exemption requests from retailers for single retailer gates where the retailer took responsibility for all UFG and metering was performed at the interconnection point to the open access distribution system.</p> <p>In addition, we note that the GIC has omitted to refer to:</p> <ul style="list-style-type: none"> a) the treatment of direct consumer gates that have been granted exemption from the regulations. The private pipelines of Nova Gas have (by Nova at least) and can be considered the same as direct consumer gates; b) Monopoly private networks and application of the regulations in those instances; <p>6) The Bertram report</p> <p>The GIC have noted that the Bertram report concluded that sweeping exemptions ought not to be available for bypass networks so long as the gas distribution sector remains an area of limited competition.</p> <p>We make the following comments in response:</p> <ul style="list-style-type: none"> 1) The request by Nova is targeted to specific rules and is not a “sweeping” exemption. 2) The Bertram paper was about the application of regulations to private pipelines and covered much more than just reconciliation and switching but also covered topics such as consumer complaints schemes, contractual terms and health and safety.

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	<p>3) The inference that there is “limited” competition in areas where Nova operates its private network is at odds with the Commerce Commissions own findings in this regard.</p> <p>4) The Gas Industry Company has not completed its review of this topic and the Bertram paper was simply the first consultation paper in any event Nova believes that paper has several significant flaws in its analysis and the conclusions drawn from the analysis.</p>