

G005

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[By email]

Attention: Ian Wilson

Dear Ian

## **SUBMISSION ON GAS GOVERNANCE ISSUES IN DISTRIBUTION**

I thank you for the opportunity to make a submission on the above document and attach GasNet's comments in the format requested.

GasNet supports the conclusion drawn in the paper that the Gas Industry Company does not need to intervene but welcomes the opportunity to consider the views of the retailers in response to the range of issues raised in the paper. GasNet has recently committed significant time and effort in developing a new draft Use of Systems Agreement and is presently consulting with the retailers, having received submissions from 6 of the 9 retailers currently trading on our networks.

Further to the comments provided, there are a number of statements in the Issues Paper which are either incorrect or misleading in relation to ownership, governance and the business activities of GasNet Limited:

### Ownership & Governance

On 1 July 2008 GasNet Limited purchased the gas distribution network and metering assets from its shareholder Wanganui Gas Limited. At the same time Energy Direct NZ Limited (EDNZ) was also formed having purchased the energy retailing business from Wanganui Gas Limited. Wanganui Gas Limited has its own Board of Directors but has no staff.

Both GasNet Limited and EDNZ are therefore separate trading companies with no association other than having the same shareholder. They each have their own Board of Directors and operate under their own governance. GasNet Limited operates with EDNZ on the same commercial and operational basis as it does with all other retailers trading on GasNet's networks and has entered into the same Distribution Services Agreement that it has with all other retailers.

Accordingly GasNet Limited and not Wanganui Gas Limited is the owner and operator of the gas distribution network and metering businesses and therefore:

- Executive Summary (Page i) second paragraph: "Wanganui Gas Limited (GasNet)" should be "GasNet Limited".
- Open Access and private networks (Page 5) last bullet point: The statement was appropriate when GasNet and EDNZ were both independent trading divisions of Wanganui Gas Limited but is now incorrect. In view of this the statement is misleading as it implies that both GasNet Limited and EDNZ operate closer because of their ownership. To the uninformed the statement could also be misinterpreted to read that EDNZ is a subsidiary of GasNet and not Wanganui Gas Limited as it is intended. The second bullet point should therefore be amended to include GasNet Limited and the third bullet deleted.
- Footnote 9 Page 13: GasNet Limited is the supplier of metering services not Wanganui Gas. The statement is also incorrect as GasNet Limited does provide metering services on other parties networks (presently only Powerco networks).

With respect to confidentiality of this submission we do not consider any comments to be commercially sensitive and therefore subject to non-disclosure.

I would like to take the opportunity to make you aware that GasNet was not formally invited or even aware that the discussion paper existed until we discovered it on the GIC website following receipt of the notice regarding the Quality Issue Paper. I questioned the sender of the Quality Issues paper by return email but no response was forthcoming. Fortunately we had sufficient time to prepare this submission but had we not found it in the first place we may have been in a completely different situation.

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](mailto:geoff.evans@gasnet.co.nz).

Yours sincerely



Geoff Evans  
**General Manager**

# GasNet Limited

## Submission on Gas Governance Issues in Distribution

Question	Comment
<p><b>Question 1:</b> Do you agree with the proposed regulatory objective? If you disagree please explain why and/or provide an alternative.</p>	<p>GasNet questions the inclusion of “safe” within the Gas Industry Company objective but acknowledges that the objective would appear incomplete if safety was excluded. It is also acknowledged that few issues can be looked at from a safety or commercial perspective without consideration or influence of the other. Our primary concern in retaining safety within the objective relates to potential conflict with the existing arrangements under GANZ and our desire that only one organisation have the remit for safety, regardless of whether it is GANZ, GIC or another entity.</p> <p>It is assumed that transmission falls under “pipeline” in the proposed regulatory objective as a number of issues for network participants, and therefore metering and retail participants, are impacted by the transmission system and other upstream participants?</p>
<p><b>Question 2:</b> Have we identified all relevant characteristics of distribution? If not, please suggest what other features you believe to be relevant, and explain why they are relevant.</p>	<p>GasNet has long considered that there should be a regulatory mechanism in place which requires retailers to pass through any cost reductions from network and/or metering services.</p>
<p><b>Question 3:</b> Have we identified all regulatory arrangements that are relevant to the analysis of gas distribution? If not, please suggest what other regulatory arrangements are relevant, and explain why they are relevant.</p>	<p>It is worth considering the New Zealand Gas Pipeline Access Code which was prepared and published by Gas House in 1998. Although voluntary, this agreement had significant support from the major parties within the industry. The document has not been updated since its first publication but the majority of the principles still apply.</p> <p>Although the impact will become apparent over the next 2 years as the changes take effect, it is expected that the pending changes brought about by the price-quality regulation will be significant, particularly for a company the size of GasNet. It appears inevitable that the regime will put significant constraints on revenue and operating costs whilst we face an overwhelming increase in regulatory compliance and associated cost. In view of this, the impact of the price-quality regime should not be underestimated.</p>

Question	Comment
<p><b>Question 4:</b> Have we identified all issues relevant to the analysis of gas distribution? If not, please suggest what other issues are relevant, and explain why they are relevant.</p>	<p>GasNet would like to see the development of a standard interconnect agreement for use between the network owners and transmission companies. The existing arrangements are not documented and generally based on customary practise which are no longer appropriate in the commercial environment within which we operate. The issues that GasNet face are not unique and better served by a standard industry wide agreement.</p> <p>As an aside, the comment in section 6.1 of the paper that Nova Gas is not considered to be a gas distributor in terms of the current definition of the gas act is of concern if Nova is not subject to the same operational safety and compliance regime as all other network operators. Without wishing to appear critical of Nova Gas this must be of concern to the Gas Industry Company, government regulators and the industry as a whole and if not appropriate in this forum should be addressed elsewhere.</p>
<p><b>Question 5:</b> Do you agree Gas Industry Co should do no further work on the safety and reliability aspects of distribution services? If you think Gas Industry Co should do further work on this topic, please explain why.</p>	<p>Yes, GasNet agrees that no further work is required.</p>
<p><b>Question 6:</b> Do you agree with the options identified for dealing with slow progress on updating standard distribution agreements? Which option do you think is most appropriate?</p>	<p>GasNet supports GIC maintaining a watching brief.</p> <p>The comment that agreements between retailers and distributors are generally confidential is incorrect in GasNet's case. Whilst we have not been specifically requested to provide copies of agreements and therefore the confidentiality aspect has not been tested from a legal perspective, all agreements are based on the same, albeit dated, template agreement that is currently posted on GasNet's website. The more recent agreements have had some minor changes made to reflect the obvious aspects which are out of date (such as reference to the allocation rules rather than the previous allocation agreement) but the suggestion that these agreements are confidential is not correct.</p> <p>GasNet agrees that agreements should be current but the effort required to update the agreements should also not be underestimated. GasNet commenced review of its agreement in 2004 and circulated a draft it for comment in 2005 to the retailers trading on its networks at the time. A significant number of issues were raised which required further consideration and resolution but were not concluded at the time. With the pending changes brought about by the proposed registry and the allocation arrangements, in addition to GIC's intentions to review the distribution agreements and the possibility of a template industry agreement, the decision was made to defer finalising the agreement given that further significant change to the agreement would likely be required. Work on the updated draft agreement recommenced in 2009 after the new registry and allocation arrangements were well established but could not wait for the GIC review which had been deferred year on year. The latest draft was sent to all 9 retailers in May 2010 and we are presently working our way through the 6 submissions received.</p> <p>GasNet would have welcomed a template, or model agreement, prior to commencing its own review but having now committed significant time and cost we do not support the GIC developing a model agreement if GasNet is required to contribute to the cost.</p>

Question	Comment
<p><b>Question 7:</b> Do you agree Gas Industry Co should do no further work on the other efficiency aspects of distribution services? If you think Gas Industry Co should do further work on this topic, please explain why.</p>	<p>Yes, GasNet agrees that no further work is required.</p>
<p><b>Question 8:</b> Do you consider the high level benchmarks for distribution contracts proposed in Appendix A are appropriate? If not, please suggest what alternatives should be considered.</p>	<p>GasNet generally supports the benchmarks.</p>