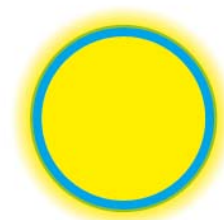


18 October 2010

Baz Walker
Gas Industry Co
PO Box 10-646
Wellington 6143
New Zealand

[Sent by website download]

POWERCO



Dear Baz,

Powerco Submission on Gas Governance Issues in Distribution: Issues Paper

Introduction

1. Powerco welcomes the opportunity to submit on the GIC's consultation document *Gas Governance Issues in Distribution: Issues Paper*, published on 7 September 2010. We agree with the GIC's analysis that there is little need for further regulation of gas distribution.

Efficiency

2. The GIC considers that the distribution of gas is currently operating at a high level of efficiency and falls well short of justifying regulation. Powerco agrees that the industry operates in a responsible self-regulating manner that does not currently justify further intervention.
3. In addition, we are significantly regulated by the Commerce Commission and other safety and operational regulations. For example, the Commerce Commission's Gas Authorisation process, in effect from 2005, has dominated our business. The Gas Distribution Default Price Path from 1 July 2012 and substantial new information disclosure requirements will also dictate what we do and how we operate.
4. The GIC believes that standard contracts for open access distribution services should be disclosed. Powerco notes that no participants in the industry (including retailers) suggest regulation on disclosure is necessary. Even the GIC state "none of the retailers we spoke with suggested regulation was necessary; neither are there any third party issues (with end users especially) that would justify this approach"¹
5. Adding further obligations for distributors operating in a currently heavily regulated environment seems unwarranted in the context of no evidence to there being any discriminatory terms and conditions in existence. The industry appears, based on its small size, to be self monitoring. Distributors would be foolish to limit access or discriminate in any way that would lessen competition in a market that craves retail competition.

¹ Ibid, page 30.

6. The GIC's main concern is that "distributors have been slow to update their distribution arrangements to reflect the changing roles and responsibilities of parties, and the introduction of the Safety and Measurement Regulations"². The GIC is seeking feedback on whether it should:
 - maintain a watching brief in the way of a short annual status report on distributors progress on updating network service arrangements (NSAs); and/or
 - develop and publish benchmarks for best practice in NSAs
7. Powerco believes that development of NSAs in the current changing regulatory environment has been problematic. The regulatory environment has focused distributors on meeting and addressing current regulatory demands placing high strains on resources and staff. Powerco has also noted the time, cost and resource required within the electricity industry to progress NSAs and believes the gas industry would be reluctant to take on such a similar lengthy and costly approach when no evidence exists of current inappropriate NSA terms and conditions.
8. However, if there is a strong view from the industry that a standard NSA needs developing, Powerco would be willing to participate in any industry lead development of a standard NSA.
9. With the gazetting of 5259:2004 in May this year along with Gas (Safety and Measurement) Regulations 2010, the environment is becoming more stable. The last set of key changes will be in the form of the 2012 Commerce Commission DPP Determination. Powerco believes that this is the appropriate time for commencing industry development of a standardised NSA.

Disconnections and reconnections

10. The GIC states that "we think the best way to progress work on disconnections and reconnections is to incorporate it in any work on retailer-distributor arrangements." Powerco has a safety first approach in matters relating to disconnections and reconnections. Powerco's belief is that the disconnection and reconnection protocol effectively dealt with these matters and addressed the process of disconnections.
11. Powerco understands that retailers wish to adopt the same process for gas disconnections and reconnections as exists within the electricity industry. It is clear that inherent differences exist between gas and electricity. Simply put you cannot just switch gas on and off like electricity and be safe.
12. Please see our responses to the GIC's questions below. If you wish to discuss any aspects of this submission in more detail please contact Martyn Dudley on 04 978 0533.

Yours sincerely

Paul Goodeve
Regulatory and Business Manager

² GIC, *Gas Governance Issues in Distribution: Issues Paper*, 7 September 2010, page 30.

Responses to GIC's Questions

Question	Comment
<p>Question 1: Do you agree with the proposed regulatory objective? If you disagree please explain why and/or provide an alternative.</p>	<p>Powerco agrees with the proposed regulatory objective.</p> <p>On page 11 the GIC includes key aspects of safety and reliability. We recommend that the fourth aspect on supply pressure is changed from:</p> <p style="padding-left: 40px;">Supply Pressure: Maintaining pressure within contracted limits.</p> <p>to</p> <p style="padding-left: 40px;">Supply Pressure: Maintaining pressure within stated specified ranges.</p> <p>This better explains the network supply situation.</p>
<p>Question 2: 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>Whilst Powerco agrees with the relevant characteristics, we note that in section 4.3 the GIC states that distribution and metering companies do face competition for end users from alternative fuels, such as LPG or electricity. Consumers have disconnected from our network to move to other fuel sources. Distribution and metering companies, more than others in the gas industry, have a vested interest in ensuring natural gas attractiveness as the fuel of choice. Pricing, ease of connection, terms and safety are key to this. To say that distribution networks do not face competition is taking a narrow view, and in Powerco's opinion does not reflect the actual market place.</p> <p>In section 4.1 the GIC states that the outlets of the distribution network are various GMSs located at end user premises. As a point of correction, the outlet of the distribution network is the point of supply. This may not be the outlet of the GMS and may not be known to the distributor.</p>
<p>Question 3: 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>Gas distributors also have to comply with the Gas (Statistics) Regulations 1997. This allows the secretary of the Ministry of Economic Development to require statistical information from gas companies.</p> <p>We note that the Commerce Commission is likely to significantly increase the amount of non-financial information gas distribution companies will need to provide. For example, it is proposing that gas distributors disclose asset management plans and significant further non-financial information.</p>
<p>Question 4: 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>No mention has been made of the end users on disconnection charges. It appears that the avenue taken reflects the Retailers desire to avoid cost. Any increase across the board in distribution charges will increase costs to all end users, when a user pays approach maybe a fairer approach for end users.</p> <p>On page 20 the GIC states that "the quality parameters are directly relevant to reliability. However, the parameters are potentially limited in their effect, because, again, they are benchmarks for reporting rather than required standards". The Commerce Commission has proposed SAIDI and SAIFI as the quality path for the gas distribution sector from 1 July 2012. This is not a benchmark for reporting, but likely to be actual limits Powerco must operate within.</p>

Question	Comment
<p>Question 5: 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>Powerco agrees with the GIC's position as this area has been recently reviewed and new regulations put in place.</p>
<p>Question 6: 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>Powerco believes that the current regulatory environment has focused distributors on meeting and addressing changing regulatory demands, placing high strains on resources and staff.</p> <p>In such an uncertain environment, Powerco has been reluctant to invest in updating NSAs. With the gazetting of 5259:2004 in May this year along with publication of the Gas (Safety and Measurement) Regulations 2010, the regulatory and safety environment is becoming clearer. The last set of key changes will be in the form of the 2012 Commerce Commission DPP determination.</p> <p>If there is a strong view from the industry that a standard NSA needs developing, Powerco would be willing to participate in any industry-led development of a NSA.</p> <p>The suggested benchmarks in Appendix A could act as a starting point. An industry-led approach would speed up any development progress of a standardised NSA and socialise the costs.</p> <p>If the industry view is to develop a NSA, then Powerco believes that post 2012 is the appropriate time for commencing industry lead development of a standardised NSA (for the reasons noted above).</p>
<p>Question 7: 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>Powerco agrees as there appears to be no industry evidence of a need to invest further work in these areas.</p>
<p>Question 8: 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>Powerco believes these to be a good first representation. If there is a strong view from the industry that a standard NSA needs developing, then these could form a starting point for industry parties to develop a standardised NSA.</p>