



18 October 2010

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Dear Ian

Gas Governance Issues in Quality

Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide a submission to the Gas Industry Company ("GIC") on the issues paper "Gas Governance Issues in Quality" dated September 2010.

Genesis Energy's responses to the consultation questions are in Appendix A.

If you would like to discuss any of these matters further, please contact me on 04 495 6357.

Yours sincerely

A handwritten signature in black ink that reads "John Bright".

John Bright
Regulatory Affairs Analyst

Appendix A: Responses to Consultation Questions

QUESTION	COMMENT
<p>Q1: Are there any other significant outcomes of non-specification gas, other than those identified in section 2.3, that Gas Industry Co should consider?</p>	<p>No.</p>
<p>Q2: Do you agree with the assessment of the types of non-specification gas and potential causer, as set out in Table 3?</p>	<p>Yes.</p>
<p>Q3: Do you agree with the proposed regulatory objective? If you disagree please explain why and/or provide an alternative.</p>	<p>Genesis Energy queries why the Gas Industry Company considers it useful to articulate a particular regulatory objective at this stage of its inquiry.</p> <p>In Genesis Energy's view, it would be preferable to focus initially on whether there are any matters of regulatory concern. If any concerns are identified, then it can be useful as part of the options evaluation stage to succinctly articulate one or more regulatory objectives.</p> <p>Setting out a one-sentence regulatory objective at this stage seems premature and may risk closing off options and directing the Gas Industry Company's further work towards particular solutions.</p> <p>Genesis Energy considers that section 43N of the Gas Act 1992 does not require the Gas Industry Company to literally describe a regulatory objective in this way.</p> <p>Setting aside the above comments, Genesis Energy suggests that the regulatory objective could be</p>

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	<p>reformulated as follows:</p> <p>To ensure industry arrangements include reasonable terms and conditions regarding <u>provide for gas quality in a manner that allow for</u> facilitates the safe, efficient, and reliable delivery of gas; and provide for risks to be properly and efficiently managed by those parties best able to manage such risks.</p> <p>This formulation is more neutral and less likely to prejudice any later analysis of policy options for dealing with identified gas quality-related problems.</p>
<p>Q4: Do you agree we have interpreted the provisions contained in the transmission codes and contracts correctly?</p> <p>Are there additional contracts or provisions that should be considered?</p>	<p>Yes.</p> <p>Genesis Energy notes that in the electricity sector there are concerns that liabilities imposed on retailers under the Consumer Guarantees Act 1993 for distribution network quality problems are not able in practice to be transferred to distributors given the monopoly power of electricity distribution businesses. This issue is being considered by the Ministry of Consumer Affairs as part of its consumer law review and will also be considered by the Electricity Authority as part of implementing the Electricity Industry Act 2010.</p> <p>Although distribution business bargaining power is not as strong in the gas sector due to inter-fuel competition, it would be worth considering whether a similar problem could arise in the gas sector.</p>

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<p>Q5: Are there any aspects of the discussion in section 6.1 that you believe to be inaccurate or misleading? If so, please explain what these are.</p>	<p>No, however Genesis Energy notes that there is an inaccuracy in the discussion of market power in section 5.2. Section 36 of the Commerce Act 1986 does not include a broad prohibition against taking advantage of market power. The prohibition is limited to the case of substantial market power and is limited to specified anti-competitive purposes.</p>
<p>Q6: Do you consider that liability for quality issues is best addressed through contractual arrangements or regulation?</p>	<p>Genesis Energy does not have a view on this at this stage and looks forward to further analysis by the Gas Industry Company.</p>
<p>Q7: Do you think the proposed regulatory objective would be better achieved with more prescriptive arrangements for the monitoring of gas composition and contaminants?</p>	<p>Genesis Energy is not convinced that the Gas Industry Company has developed a convincing case for intervention at this stage.</p>
<p>Q8: Do you think further work to identify the options for more active gas quality monitoring, and to quantify the costs and benefits of those options, is justified?</p>	<p>Yes.</p>
<p>Q9: Do you think TSOs should monitor gas quality more actively (for example, by continuously monitoring the water content in the transmission system to manage the risk of hydrate formation)?</p>	<p>No comment.</p>

QUESTION	COMMENT
Q10: Currently, the TSOs audit producers' monitoring of gas composition. Do you think this arrangement provides sufficient assurance against the delivery of non-specification gas?	Yes.