

S005

28 March 2006

Mr Paul Mitchell
Gas Industry Company Limited
PO Box 10-646
WELLINGTON

Dear Paul

SUBMISSION ON COST BENEFIT ANALYSIS OF OPTIONS FOR SWITCHING ARRANGEMENTS

I thank you for the opportunity to make a submission on the Gas Industry Company's Consultation Paper.

Prior to commenting on specific aspects of the paper, I would like to take the opportunity to commend the GIC for commissioning the independent cost analysis following a clear signal from GasNet and other parties that the previous consultation paper was lacking in this aspect.

Of particular concern to GasNet, and undoubtedly the industry as a whole, is that the NZ Gas Industry does not over commit itself to switching arrangements that increases the cost to the point where it triggers a reduction of consumers. Whilst GasNet accepts that the purpose of the commissioned CRA report was to identify the cost benefits and therefore the risk of this occurring, the report acknowledges a number of aspects that cannot by their nature be clearly identified or quantified.

GasNet raised a number of issues in its submission of 2 November 2005 on Proposed Switching Arrangements and wishes to note that many of these concerns remain unchanged. Acknowledging this, GasNet has chosen to not make further reference to these issues but rather address any issues relating directly to the current consultation paper under review. These issues are covered as follows.

1. The report does not address Option 2 Reconciliation Code Enhancements. As a consequence of this, GasNet considers that the Consultation Paper title is misleading and would be better reflected as the Costs benefit Analysis of Central Registry Options. Accepting this however, GasNet has made a previous submission regarding Option 2

and given the absence of any analysis cannot see how the conclusion can be made that the Central Registry option is the most cost effective option of the four identified when one is omitted from the analysis.

2. Table 1 on Page 7 of the Consultation Paper acknowledges that six of the current problems under Option 2 are "partially resolved" but makes no attempt to quantify the extent or provide any cost benefit analysis. Based on this and a belief that a number of the problems might be closer to being resolved than not, GasNet questions how the industry can conclude that Option 2 is not a viable alternative to the Central Registry options 3 & 4.
3. In its report CRA states that the information provided to it for the analysis was incomplete or inconsistent and that they were constrained by the data and information provided to them. Whilst GasNet acknowledges and appreciates the issues around data reliability and collection, it is little comfort to GasNet and the industry as a whole if as a consequence of this the solution comes at a net cost.
4. In Table 4, Page 14, the comparison of the gas registry costs with the electricity registry costs are alarming and whilst in isolation the costs could be considered to be justifiable, these are additional costs over and above the existing arrangements. GasNet questions the impact of these cost increases on the cost to the consumer and the consequential risk of consumers switching away from gas.

GasNet has chosen not to respond in the format suggested within the Consultation Paper and considers that the above reflects on our position.

Should you wish to discuss this further please do not hesitate to contact me either by phone at (06) 349 0131 or by email at geoff.evans@gasnet.co.nz.

Yours sincerely



Geoff Evans
Manager