



genesis
ENERGY

First Floor
Genesis Energy House
Cnr Woodward St & The
Terrace
PO Box 10568
The Terrace
Wellington
New Zealand
Telephone 04 495 6350
Facsimile 04 495 6363

30 March 2006

Paul Mitchell
Senior Advisor – Retail & Distribution
Gas Industry Company
PO Box 10-646
WELLINGTON

Dear Paul

Cost Benefit Analysis of Options for Switching Arrangements in the New Zealand Gas Industry

Genesis Power Limited trading as Genesis Energy welcomes the opportunity to provide comments to the Gas Industry Company (GIC) on the discussion paper entitled 'Cost Benefit Analysis of Options for Switching Arrangements in the New Zealand Gas Industry' dated 16 March 2006. Genesis Energy has reviewed the discussion paper and is pleased to have the opportunity to respond to the issues raised in it.

Genesis Energy commends the GIC for both heeding the calls of industry participants to undertake a cost-benefit analysis and in consulting on the work it has had developed on that analysis.

Genesis Energy's approach to its consideration of this issue is relatively straight-forward. Given the likely magnitude of the proposed investment, it is important that industry participants are assured that the investment is warranted. To this end, we have posed ourselves the following question:

Has sufficient cost-benefit information, of a sufficiently high quality been provided to industry participants to enable them to support the GIC proceeding with its preferred option at this stage?

In general, Genesis Energy considers that this burden of proof has been met by the information provided at this point in time. In particular, Genesis Energy appreciates that the GIC is at a very early stage of this project and that the cost-benefit equation will undoubtedly (indeed in Genesis Energy's view must) be re-tested once tenders have been received, and before a final decision has

been made to proceed. Our responses to the specific questions raised are set out in Appendix One attached to this letter.

If you would like to discuss any of these matters further please contact either myself on 021 375 061, or Tracey Kaio 07 857 1610.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J Carnegie'.

John A Carnegie
Regulatory Affairs Manager
Genesis Energy

Appendix One: Responses to Questions

Question	Response
<p>Q1. Do you agree with the methodology applied by CRA International in determining the relevant costs and benefits of the options previously consulted on?</p>	<p>Yes Genesis Energy agrees that CRA International have provided a robust analysis given the limited information they received.</p> <p>Having said that, Genesis Energy notes that in its conclusion on page 20, CRA International implies that an initial step could be to enhance the Reconciliation Code. Although this would, as stated, provide some efficiencies it would not, in Genesis Energy's view, go far enough to resolve the issues currently faced by the industry. It is our view that even if the industry was to incur the expense of enhancing the Reconciliation Code still more benefit would be seen by proceeding with the preferred option.</p> <p>As other gas industry participants have already raised through submissions on the options, enhancement of the Reconciliation Code is likely to produce benefits which are more favourable to allocation and reconciliation. However, it is clear that this option would not solve, to name a few:</p> <ol style="list-style-type: none"> 1. The need to provide a mechanism for tracking each retailers switch files through all stages; 2. The existence of: <ol style="list-style-type: none"> i errors being transferred through the switch files; and ii billing issues between network, GMS owners and retailers; and 3. The need to ensure customer's initial bills are both timely and as accurate as possible.

Question	Response
<p>Q2. Do you agree with the identification and quantification of costs and benefits of switching arrangements contained within CRA International's report?</p>	<p>Yes, in general Genesis Energy agrees with the identification and qualification of costs and benefits of switching arrangements contained within CRA International's report.</p> <p>We understand the need for a range to be presented in the CBA because of the lack of detail provided to CRA International and believe that CRA International has taken what we consider to be an appropriately conservative approach with the development of the CBA. However, despite the range provided, Genesis Energy contends that the burden of proof weighs more towards a positive NPV than a negative NPV and we do not think that a negative NPV is likely to eventuate (see our response to Question 3 below).</p> <p>It is also important that the Gas Industry Company resolutely maintain an 'industry-wide' perspective in this exercise. While clearly not the case for Genesis Energy, it is possible that for some participants the costs of implementing a Central Registry may outweigh the individual company's benefits. While it is undoubtedly important for the Gas Industry Company to take such impacts into account in its design work in an effort to mitigate such effects, such instances should not prevent the industry-wide net-benefits from being attained.</p> <p>Genesis Energy believes that, at this stage, there is sufficient evidence for the Gas Industry Co to proceed with implementing a Central Registry.</p>

Question	Response
<p>Q3. Are there any other factors you are aware of that should be taken into account in assessing the costs and benefits of the preferred option?</p>	<p>Whilst CRA International has incorporated the easily measurable benefits there are others which are harder to quantify, which if monetised, would enhance the NPV values for the Central Registry. These are, for example:</p> <ol style="list-style-type: none"> 1. Improved retail competition and distributor performance; 2. Reduction of discrepancies between retailers, distributor and GMS owner databases; 3. Inclusion of additional metering fields to that held by the Electricity Registry which will dramatically improve billing accuracy and assist in timely complaint resolutions; 4. Remove the need for individual distributors to develop their own website functionality which, in our view, would be less cost effective across the entire industry; 5. Remove the need for interfaces between different IT platforms; and 6. Ensure that all participants are working to one set of information exchange protocols.