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Dear Nicole

REVISED PROPOSAL FOR ALLOCATION OF SWITCHING AND REGISTRY COSTS

Introduction

1. Thank you for the opportunity to make a submission on the Gas Industry Company's (GIC's) consultation paper entitled "Revised Proposal for Allocation of Switching and Registry Costs" dated 19 April 2007.
2. No part of our submission is confidential and we are happy for it to be made public.
3. Mighty River Power does not agree with the GIC's revised proposal. We consider it to be inconsistent with the Government Policy Statement on Gas Governance (GPS) overall policy objective requiring gas to be delivered to customers in an efficient and fair manner.
4. Mighty River Power did not express a view on allocation of cost in the previous round of submissions because we were comfortable with the GIC's allocation.
5. We accept, after considering the GIC's arguments, that the GIC's previous proposal may have allocated costs inefficiently and unfairly. A 50/50 split for development of the registry and a 45/45/10 split for ongoing costs may not reflect the likely level of benefit to be derived from participants. In particular retailers and distributors. Retailers are likely to benefit more than distributors and it is not unreasonable to reflect this in the allocation of cost.
6. However, the GIC's most recent proposal, by placing the entire cost of the registry on retailers, makes the same mistake. Distributors will likely receive benefits from the prospective registry. Accordingly they should pay a share of its costs.

Mighty River Power's view

7. The starting point for considering the appropriate cost allocation between retailers, distributors and meter owners is the GPS overall objective:¹
 4. The Government's overall policy objective for the gas industry is:

to ensure that gas is delivered to existing and new customers in a safe, efficient, fair and reliable manner
8. Central to the above objective are the concepts of efficiency and fairness. Fundamental to both concepts in this instance is that those that receive a benefit from the prospective gas switching registry should also pay part of the cost.
9. The GIC argues that it would be simpler if retailers paid 100% of the cost. We disagree with this argument.
10. Simplicity is not a concept that is explicitly referred to in the GPS overall objective statement. Therefore, the GIC should not place it on the same level of importance as efficiency and fairness.
11. A corollary of the above is that simplicity is only relevant to the degree that it impacts efficiency, i.e. simplicity is a subset of efficiency. Accordingly, the simplicity argument only has merit if the administrative cost savings derived from allocating 100% of the cost to retailers outweigh the efficiencies gained from allocating costs on a user pays basis. The GIC has provided no empirical evidence that allocating 100% of costs to retailers will produce cost savings.
12. We consider that the benefit estimate split in the GIC's revised proposal is very rough and may well underestimate the real benefit of the registry to distributors. Distributors will receive very real benefits from the prospective switching registry. They will avoid the responsibility and cost of data base management (something that has not been done well to date). They will also benefit from the perceived improvement in industry competitiveness as seen by Government. A further benefit is that distributors are likely to recognise a number of sites that are presently lost, thereby increasing the amount of fixed charges they receive.
13. Further, if distributors are not required to meet a portion of the registry's cost, commensurate with the benefit they receive, they will receive a windfall gain and will be free riding on retailers.

¹ Typically the starting point is the empowering provision itself, in this case section 43G(2)(c) of the Gas Act. However, section 43G(2)(c) is silent on allocation of cost. Accordingly, guidance as to the appropriate approach is to be taken from the GPS.

Concluding remarks

14. In conclusion, Mighty River Power does not consider that the GIC has demonstrated that its proposal will produce administrative efficiency gains that outweigh the benefit to be gained from applying user/beneficiary pays principles. Further we consider that the GIC may have under estimated the benefit to be gained by distributors from the registry.
15. Mighty River Power **recommends** that the developmental and ongoing costs of the gas switching registry be split between retailers and distributors (say 75%/25%). We consider that this represents a more reasonable approximation of the likely benefit split between retailers and distributors, than allocating 100% of cost to retailers.
16. If you would like to discuss this matter directly with Mighty River Power, please do not hesitate to contact either me (on 09 308 8202 or john.gilkison@mightyriver.co.nz) or John Candy (on 09 580 3783 or john.candy@mightyriver.co.nz).

Yours faithfully

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