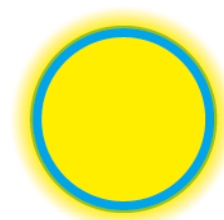


07 February 2014

Rt. Hon J B Bolger
Chair
Gas Industry Company Ltd
P O Box 10 646
WELLINGTON 6143

POWERCO



Dear Jim,

Powerco response to FY2015 Strategy, Work programme and Levy

1. Powerco welcomes the opportunity to comment on the Gas Industry Co's (GIC) consultation paper, *FY2015 Strategy, Work programme and Levy (Consultation Paper)* published on 11 December 2013. We believe the GIC agenda is well positioned to support the development of a strong, competitive and vibrant gas industry in New Zealand; the benefit we anticipate will ultimately flow to customers and investors in the sector.
2. In preparing this response, Powerco has considered the GIC's strategic objectives Gas Policy Statement and we attended the related forum held by the GIC in November 2013.
3. This submission comprises of two parts:
 - comments on relevant parts of the consultation paper; and
 - responses to the Authority's consultation paper questions in the requested format (Annex A).
4. None of the contents of this letter or Annex A are confidential.

Introduction

5. As an open access gas distribution provider, our commercial drivers are aligned with building a strong and efficient gas sector. The long term nature of our investments and diverse customer mix mean the profitability of these investments is ultimately linked to people choosing gas, and choosing to retain gas.
6. Customers will only select gas if the industry delivers strong price advantages compared to other available fuels, unquestionable reliability, a competitive market and clear information on the benefits of gas. The GIC, as a regulator, can contribute by delivering regulation and industry approaches that protect customers and ensure effective market operation. For this reason we are particularly pleased to see the continued commitment to "telling the gas story" as consider positive and visible marketing is essential in developing the gas industry.

Support for the proposed FY2015 Strategy and Work Programme.

7. We have reviewed the Consultation Paper and generally support the indicative work programme. The continued focus on addressing the transmission capacity issues should continue to be the GIC's priority, as in FY2014, as the strong work achieved in FY2013 needs to be built on to conclude this project.
8. Powerco considers the GIC's prioritisation methodology robust and this is reflected in the work programme set down for FY2015. We also encourage the GIC to focus on completing on-going projects over resources being spread thinly across multiple projects, extending delivery time. It will be positive to see the conclusion on the rule change work on Downstream Reconciliation, Switching, Compliance and Critical Contingency Management which has been going on for a number of years now. Concluding this work supports market operations, provides certainty and will free up resources to look at new current areas of work going forward.
9. Powerco supports the GIC's proposal to review the governance arrangements for Interconnections. However, we think that the review should extend to how the Guidelines have been applied to pre-existing interconnection points. Section 6.4 of the Guidelines recommends retrospective agreements be established between the TSO and the interconnected party where no contract exists. Currently, from our perspective these guidelines have not been fully implemented.
10. We anticipate that the proposed work programme for FY2016 will be noticeably different to the proposed FY2015 programme, as it will reflect the completion of current work and be focused on new priority areas. One future area of work we recommend that the GIC review in either FY2015 or FY2016 is the requirements associated with Smart metering. With the introduction of gas Smart metering on the horizon, attention will need to be given to the potential implications on billing and reconciliation, switching and standardisation. Smart metering introduction will also affect the following objectives set out by the GPS;
 - accurate, efficient and timely arrangements for the allocation and reconciliation of downstream gas quantities,
 - an efficient market structure for the provision of gas metering, pipeline and energy services, and
 - the respective roles of gas metering, pipeline and gas retail participants are able to be clearly understood.
11. We were pleased to see the GIC become actively involved in progressing the Gas Quality work stream as while the work is being industry-led the additional facilitation role they played has helped to advance progress. We believe the GIC need to remain in a leadership role in relation to the IEP, as believe having the industry body facilitating will ensure the work progresses and an acceptable solution to all parties is achieved.

Levy fees and forecast gas volumes

12. Powerco would like to congratulate the GIC on its positive response to the Governments direction on providing value for money and reducing costs. While the current economic climate is showing signs of recovery, the estimated FY2015 Work Programme costs that are lower than those of FY2014 are welcomed. We note that the GIC have reduced their company overhead costs over the last 3 years and this has contributed to this, while not impacting the quality of service provided.
13. We consider the forecast gas volumes projections reasonable and consider that this is predominantly down to the increased demand by Methanex.

Industry advisory and technical groups

14. When addressing the delivery of the FY2015 Work Programme, we recommend that the GIC continue the use of advisory and technical groups such as the Downstream Reconciliation Advisory Group (DRAG). When used under the right circumstances, advisory and technical groups can provide significant time and resource savings through identifying key issues, removing minor matters and providing clear pre-consultation advice.

Conclusion

15. Thank you for the opportunity to make this submission. If the GIC wishes to discuss any aspects of this submission further, please do not hesitate in contacting me on 06 757 3397 or Oliver.Vincent@powerco.co.nz.

Yours sincerely



Oliver Vincent
Regulatory Analyst
Powerco

ANNEX A: Recommended Format for Submissions

To assist Gas Industry Co in the orderly and efficient consideration of stakeholders' responses, a suggested format for submissions has been prepared. Respondents are also free to include other material in their responses.

Submission prepared by: Oliver Vincent (Regulatory Analyst) on behalf of Powerco

QUESTION	COMMENT
<p>Q1: Do you consider there to be any other items that should be included in the Company's intended work programme for FY2015? If so, please describe the work required and how that work achieves the outcomes sought under the Gas Act and GPS.</p>	<ul style="list-style-type: none"> We recommend that the GIC review the requirements and consider whether to develop a work programme around the implications of Smart metering implementation. Depending on the outcome of the review, work could be programmed for either FY2015 or FY2016. Powerco supports the GIC's proposal to review the governance arrangements for Interconnections. However, we think that the review should extend to how the Guidelines have been applied to pre-existing interconnection points. Section 6.4 of the Guidelines recommends retrospective agreements be established between the TSO and the interconnected party where no contract exists
<p>Q2: Do you consider there to be any items that should be excluded from the Company's intended work programme for FY2015? Please provide reasons for your response.</p>	<p>No.</p>
<p>Q3: We are particularly interested in industry comment on the forecast gas volumes – do stakeholders consider the projection reasonable? If not, what would they consider an appropriate gas volumes estimate to be?</p>	<p>Yes.</p>
<p>Q4: Do you have any comment on the proposed levy for FY2015?</p>	<p>Yes. We support the proposed levy and congratulate the GIC for developing a work programme that is prioritised to meet the sectors needs at a reduced cost.</p>
<p>Q5: Do you have any suggestions for amending the annual levy regulations?</p>	<p>No comment.</p>