



7 June 2011

Melanie Leonard  
Gas Industry Co  
Level 8, The Todd Building  
95 Customhouse Quay  
PO Box 10-646  
Wellington 6143

Dear Melanie

**Submission on Proposed Gas Transmission Investment Project**

Contact Energy Limited (“Contact”) welcomes the opportunity to provide feedback to the Gas Industry Company (“GIC”) on the Proposed Gas Transmission Investment Project (the Proposal).

Contact is generally supportive of moves by the GIC to further investigate capacity issues. Contact makes the following comments regarding the GIC’s Proposal:

1. While one of the outcomes of the Proposal may be further investment in pipeline capacity this should not be a preconceived conclusion. Therefore the Proposal would be better termed “Long Term Gas Transmission Capacity Review”. This would focus the Proposal on a gas transmission capacity allocation system that signals the appropriate value of capacity to the market.
2. Contact believes that a system that provides price signals then encourages investment if needed, limits capacity hoarding and allows for new entrants.
3. This approach, which provides the same opportunity for all capacity users, best satisfies objectives that the GIC is required to observe in recommending gas governance regulations such as:
  - providing access to key infrastructure;
  - minimising barriers to competition; and
  - maintaining and enhancing incentives for investment in gas infrastructure.

It should be noted that this may result in higher delivered gas prices and may not be consistent with the objective that gas prices should be subject to sustained downward pressures.

4. Contact agrees that the first step should be improving the quality and availability of information to the market participants. This should then enable the GIC to identify if there really is a shortage of capacity.

5. Whether or not there is a shortage of capacity Contact believes that improvement in commercial arrangements should be a key focus of the industry and be advanced so that the market works in an efficient and effective manner. This should not be restricted to the North pipeline but the entire transmission system.
6. The GIC suggests that it is likely that regulation of some form will be required. Before such contemplation takes place Contact believes the work outlined in paragraph 4 and 5 above should be completed.
7. Contact would be happy to nominate a senior manager to participate in the Panel of Strategic Advisors if this is required. However a large portion of this work could be done by the GIC in association with Vector, and MDL where they may be impacted, without the need for the level of project management envisaged by the GIC. Contact would like the GIC to develop a well structured project plan before the GIC draws on the expensive time of senior managers.

If you have any queries or require any further information, please do not hesitate to contact me at [Sharon.wray@contactenergy.co.nz](mailto:Sharon.wray@contactenergy.co.nz) or 04 462 1119.

Yours sincerely



Sharon Wray  
Fuels Manager