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Dear Mel

Proposed Gas Transmission Investment Project

Introduction

1. Mighty River Power welcomes the opportunity to comment on the Gas Industry Company's (GIC) Proposed Gas Transmission Investment Project. No part of this submission is confidential and Mighty River Power is happy for it to be publicly released.

Comments

2. Mighty River Power supports this GIC's initiative in attempting to promote investment in the transmission system. We believe that the GIC has designed the project correctly in that it should first establish if there is a need for investment in the gas transmission system and then if there is, design a pathway for that investment to take place.
3. Whilst we believe the underlying principles of the proposed project are sound we do have some concerns about a potential regulatory approach to investment that may require Vector Limited (Vector) to invest in upgrading or extending their transmission pipelines when Vector themselves may not be able to justify that investment to its own shareholders.
4. Vector's management like those of all private companies can only authorise investment in their transmission infrastructure if it meets its shareholders requirements for returns on investment. It is therefore important that the GIC identifies the barriers that Vector's management currently face when considering any investment in expanding their transmission network and to determine if it can assist Vector's management in

overcoming these barriers. If these barriers cannot be overcome then we do not believe that the project will have a positive outcome.

5. The outcome of this proposed project must in our opinion include the need for any investment in the transmission system to pass all reasonable return on investment tests before any project is approved. The inclusion of a “net public benefit” in these tests may be a “nice to have” but carries little to no weight in any financial assessment of an investment project being considered by a private company such as Vector.
6. Mighty River Power is also concerned that the GIC may as part of a regulated solution require the industry as a whole to underwrite investments in the transmission system that fail to pass Vector’s investment criteria. It must always be remembered that gas is a discretionary fuel and therefore it is critically important that we do not disadvantage the industry and our existing customers by imposing additional costs upon it, even if it is to ensure investment in the transmission system. This is important not only in the industrial and commercial sector but also in the domestic sector where over the last few years there has been an aggressive and successful marketing campaign for heat pumps at the expense of gas.
7. Over the past year Vector Transmission has carried out some research into each shippers future load requirements. We would suggest that this plus the other forecasting and pipeline development work undertaken by Vector Transmission would be the ideal starting point for the Panel of Strategic Advisors.
8. Mighty River Power would be happy to participate in the Panel of Strategic Advisors and we nominate Duncan Jared as our representative on the panel.
9. If you would like to discuss any of our above comments directly with Mighty River Power, then please do not hesitate to me on 06 348 7926 or jim.raybould@mightyriver.co.nz .

Yours sincerely



Jim Raybould

Gas Manager