PVL Proteins Limited

Mr Ian Wilson

Principal Adviser – Pipelines

Gas Industry Company Ltd

PO Box 10646

Wellington, 6143

Dear Sir,

Please find enclosed our submission on the "*Retail Competition and Transmission capacity: Statement of Proposal".*

Our principal submission is that due to the current capacity constraints on the Northern Pipeline end users have suffered a significant reduction in competition, this has manifested itself in a reduction of competitive gas offers when going to market leading to companies like ourselves not being able to take advantage of the 'best' offer due to lack of capacity. This results in significant economic rents being extracted by shippers/retailers with 'Grandfathered' reserved capacity.

The proposal put forward by the GIC to allow large end users to effectively own their capacity does go a long way to addressing this competitive constraint in the short-term. However, the proposal is unclear on how it will deal with existing users who wish to undertake growth other than the minimal incremental volumes put forward by Vector. This needs to be clarified before we would be fully comfortable with the changes proposed.

It is our firm belief that the only way to fully address this competitive issue is to increase capacity, this would allow an effective market to operate both for new entrant shippers/retailers and new entrant end users. Until this happens there will continue to be economic rent being extracted in the marketplace resulting in increased costs to the end users and their customers.

Retail Competition and Transmission Capacity: Statement of Proposal- format for submissions

Company name: PVL Proteins Ltd

To assist the Gas Industry Co in consider stakeholders' responses, below is a suggested format for submissions. The questions are the same as those contained in the body of the document. Respondents are also free to include other material in their responses.

QUESTION	COMMENT
Q1 Do you agree with our description of the retail competition problem?	To a degree yes – we agree there is a reduction in competition, but we believe it to be more significant that you represent. As a large end user who went to market earlier this year we were effectively presented with only two viable offers (i.e. those not subject to capacity availability). Due to capacity issues we were not able to take the best offer and during the process the incumbent shipper made it very clear that they valued the capacity and would under no circumstances transfer that capacity if we selected another supplier. We did change suppliers but that was at a significant premium (18%) over the best offer.
Q2 Do you agree with the economic analysis?	Basically the reliance on neoclassical economic theory is sound and as you point out changing allocation methods will not improve supply, therefore to increase competition in the market the only effective method is to un-constrain supply and thus remove barriers to entry for new end users. Otherwise economic rent will be extracted somewhere within the marketplace. Therefore, the sooner we get a resolution to the real issue the better. Relying on incremental growth is hardly an aspirational target for New Zealand's largest city and waiting until 2012 for a plan is far too long, as Vector will then need to plan and implement change – another 3-5 years? How does 'incremental' growth look in that 7 year timeframe?.
Q3 Do you agree with the proposed regulatory objective?	Yes, basically the GIC has limited powers and this proposal fits with the regulatory objective of increasing retail competition. This is where the economic rent is currently being paid by the end user through uncompetitive allocation methods that provide the shippers/retailers with constrained capacity at no additional cost – these shippers/retailers are then able to extract that rent from the end users. One of the key issues is that there is no medium term solution identified which makes it difficult to employ a short-term fix consistent with the medium term outcome.
Q4 Do you consider that the evaluation criteria are appropriate for evaluating the options?	

QUESTION	COMMENT
Q5 Do you have any comments on the evaluation of options?	You have used a very 'academic' approach to the evaluation method and who is, and is not impacted. There is the constant reference to an efficient market where prices manage scarcity and end users who require cheap high volume gas should move away from Auckland, or change energy source. Unfortunately in the real world due to a plethora of issues it is not a viable option to change location or fuel simply because there is a very inefficient gas infrastructure model within New Zealand's largest city.
Q6 Do you agree that Gas Industry Co has, through the evaluation of options, correctly identified the 'Capacity Follows End User' as the preferred option?	We agree that the "capacity follows end user" is the preferred short-term model for managing the current constrained supply. However, we need to get the root cause sorted in the short to medium term as gas pipeline size should not be allowed to constrain business growth within the Northern part of the North Island, especially Auckland.
Q7 Do you have any comments on the details of the proposal?	No as long as the end users MDQ is transferred and there is the ability for businesses to grow at their required rate.
Q8 Do you agree with the next steps?	Yes, but there needs to be urgency – you have given yourselves 52 days to consider the submissions and make a recommendation to the Minister – does it need to be so long?

Yours faithfully

Bruce Fyfe

Group Commercial Manager

PO Box 22-747, Otahuhu

Auckland

Wilson Hellaby

AMP Auckland Meat Processors

PVL Proteins Limited