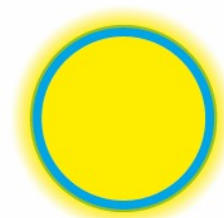


4 February 2009

Peter Davies
Gas Industry Company
Level 8, the Todd Building
95 Customhouse Quay
Wellington 6143

[By email]

POWERCO



Dear Peter,

Submission on the Proposed Gas (Levy of Participants) Regulations 2010

Thank you for the opportunity to comment on the Gas Industry Company (GIC) *Proposed Gas (Levy of Participants) Regulations Consultation Paper 2010*, published 23 December 2009.

The GIC levy

The GIC is proposing to increase the retail levy and the wholesale levy by 28% in the 2011 financial year. This is a substantial increase and Powerco recommends that the GIC continues to focus on delivering value for money to gas consumers, ensuring that all work streams have a clear cost benefit justification.

The GIC's costs are only one part of the "regulatory burden", including Commerce Commission and Electricity and Gas Complaint Commission costs. These costs are ultimately borne by consumers, and given the relatively small size of the New Zealand gas industry, all regulators need to look closely at their costs.

The GIC work programme

The proposed work programme this year is excessive and places an unnecessary burden on gas consumers. The industry noted in January 2009 that reducing the levy last year should not result in a work stream bubble for the 2010/2011 financial year. The work streams should be spread over several years, reducing the cost burden on gas consumers. This now does not seem to be the case and the work streams appear to be all targeted to finish by the end of the 2010/2011 financial year. We recommend delaying the distribution contracts and wholesale market trial work streams until FY 2012.

Yours sincerely,

Charlotte Salathiel
Regulatory Manager

Response to questions

Question	Powerco's Response
Q1: Do you consider there to be any other items that should be included in the Company's intended work programme for FY2011?	Powerco believes more targeted work could be done on the direct use of gas. All other important work streams have been covered.
Q2: Do you consider there to be any items that should be excluded from the Company's intended work programme for FY2011?	Please see Q4 for Powerco's response to this question.
Q3: Do you have any questions on the calculation of the levy funding requirement for FY2011??	No.
Q4: Do you have any comment on the proposed levy for FY2011?	<p>The industry noted in January 2009 that reducing the levy last year should not result in a work stream bubble for FY 2010/2011. This now does not seem to be the case and the work streams appear to be all targeted to be finished by FY 2010/2011. This disadvantages the end user by increasing costs to them and is against the Gas Government Policy Statement goal of sustained downward pressure on gas prices.</p> <p>Powerco suggest delaying the following work streams until FY 2011/2012:</p> <ul style="list-style-type: none"> a. Distribution contracts: Powerco is unsure how this work stream will benefit end users. b. Wholesale Market trial: There is little industry support for such a move, with the only support being from the Ministry of Economic Development. <p>Customers appear to be facing 28% levy increase under an unnecessary rush by the GIC to complete all work streams by the end of FY10/11.</p>
Q5: Do you have any comment on regulatory amendments describe in section 8?	No comment.
Q6: Do you consider that the GIC should alter its current method of defining direct costs and allocate more of its indirect costs to work streams?	Currently indirect costs remain transparent; any change to this would need to keep these costs transparent.
Q7: Do you support the inclusion of a portion of Gas Industry Co's indirect costs in market fees for FY2012, as opposed to	Powerco supports this approach as it reduces the direct burden on the customer.

their inclusion in the FY2011 levy?	
Q8: Do you agree that Gas Industry Co should recover its costs associated with MPOC/VTC outside the levy regulations?	Powerco notes that if recovering costs in this manner results in a direct cost deduction to the end user then Powerco would support it.
Q9: If you agree with Q8, do you agree that Gas industry Co should recover its costs associated with MPOC/VTC rule changes from applicants or MDL and Vector?	No comment
Q10: Do you agree that Gas Industry Co should seek to recover its full internal costs associated with the compliance regime through orders for costs in relation to hearings?	Powerco believes that these costs should be monitored, and if they become material, then GIC should revisit the option proposed in Q10.