

Peter Davies
Gas Industry Company Limited
PO Box 10 646
Wellington 6143

04 February 2009

Dear Peter,

FY2010 LEVY FOR GAS INDUSTRY CO

1. Carter Holt Harvey Limited ("CHH") welcomes the opportunity to submit its views on the FY2010 Levy for the Gas Industry Company ("GIC"). CHH notes the importance of continuing to consult on levy proposals for the accountability and transparency of the GIC.
2. The enclosed comments are more of a generalist nature as opposed to answers to your specific questions.

Increased Gas Industry Costs

3. Notwithstanding the obligations under the GPS, CHH has concerns regarding the New Zealand gas market's ability to absorb the additional costs it will be incurring in the coming years.
4. CHH recommends that in the future, GIC prepare and submit a 3 year cost estimate, the first year being in detail, the remaining 2 years be at amore aggregated level.
5. At the GIC Levy Workshop on 28 January 2009, it was not totally clear how much GIC is "pushing back" to the Government regarding the necessity for the work programmes required by the GPS, and also unclear as to the process of considering "cheaper options" in setting the work programme.

6. CHH has an increasing expectation of GIC (as it does of similar bodies) to demonstrate it is not only delivering value for money, but delivering best value for consumers.
7. It may be appropriate for the GIC to slow down a work stream in order to assess the costs and benefits.
8. Given the current economic climate, there is an ever present need for the GIC to be aware and responsive to the impact of the detail of proposed rules and regulations (including development costs) and relay those costs to industry.

CHH's Views on GIC Funding, Levies and Market Fees

9. GIC costs fall into two distinct categories. First, day to day operational costs, and second, development costs.
10. GIC recognizes this distinction, by setting both levies and market fees to recover budgeted costs for both sets of activity.
11. CHH understands the need for GIC to have revenue to fund all costs, however charging market fees which cover development expenditure in the year it is incurred can create inequity. This development expenditure is generally for the future benefit of all market users, not solely the current market. CHH believes this expenditure is akin to capital expenditure, and should be amortised over subsequent years.
12. This will result in a funding deficit for GIC, and CHH encourages GIC to explore opportunities to cover this.
13. The process provides for the levy to be adjusted by under- and over-recoveries of prior years. Currently, these levy adjustments are made 2 years after the under- over-recovery. For example, an over-recovery in FY2009, would be included in the levy setting process for FY2011. CHH believes that this timeframe can and should be shortened. Levy adjustments should be accounted for as soon as determined, either by adjusting the current levy, or by a wash-up based on the relevant year.

Closing comments.

14. The desired outcomes from the Market Development Work Programme include the following ;
- a) Barriers to retail and wholesale competition are minimised.
 - b) Downward pressure on prices
 - c) Improved consumer outcomes

CHH experience over recent months demonstrates that competition exists in the downstream gas market, but there appears a total lack of competition in the upstream gas market (i.e. producers). CHH is most concerned about this, and is unclear where this issue sits in relation to the GIC.

15. Thank you for considering this submission. If you have any queries, or require further information, please feel free to contact me at.

Yours sincerely



Roger Kestle

Business Improvement / Energy Manager