



**Submission to Gas Industry Company
Limited on its Consultation Paper on
the Levy for Gas Industry Co for the
2008/2009 Financial Year: December
2007**

From

Contact Energy Limited

4 February 2008

Introduction

Contact Energy Limited (“Contact”) welcomes the opportunity to comment on the Gas Industry Company Limited’s (“GIC”) consultation paper on its levy for the 2008/2009 financial year. Contact’s answers to the questions asked by the paper follow over the page. Contact is mindful of the significant work plan and new challenges that the GIC faces in the coming years and we remain committed to working with it to realise its strategic goals.

For any questions related to this submission, please contact:

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Questions from the Consultation Paper

Questions	Comments
<p>Question 1: Do you agree with the proposal not to alter the structure of the levy for the 2007/08 financial year?</p>	<p>Contact agrees with proposal not to alter retail levy structure.</p> <p>We note however, that introducing dedicated fees and levies does not strictly correspond with this directive. There are many issues with having dedicated levies and fees separate from the general GIC levy. Firstly, implementation logistics will be difficult to manage. Secondly, there is no stability or simplicity for customers in that the levy could go up and down over the course of the year. Thirdly, costs to serve customers will increase as there will be more implementation costs, including extra advertisements to advise customers (possibly multiple times per year), as well as extra involvement from staff to implement the changes and to provide customer support. For these reasons we also consider that dedicated fees could go against the GIC's Levy Principle 4: Simplicity; that the levy structure should not create undue transaction costs for the organisation which implements and administers it, or for the participants who must pay it.</p> <p>Where dedicated fees are instituted by the GIC, we suggest that it builds anticipated (or past) dedicated fees into the levy itself rather than having separate amounts pop up unpredictably throughout the next 2-3 year period. This will ensure stability in structure and amount of the levy and help to reduce implementation costs and logistical difficulties for retailers.</p> <p>In addition, Contact suggests that the notification period for the levy should be at least six weeks. For Contact to give 30 days notice to its retail customers and factoring in the time taken for implementation, at least six weeks notice is required. This should also apply to any additional dedicated fees or levies.</p>
<p>Question 2: Do you agree with the proposed policy for funding the implementation of gas governance arrangements?</p>	<p>Please refer to our answer to Question 1.</p>
<p>Question 3: Do you agree with the proposed indirect cost allocation methodology?</p>	<p>Contact agrees with the proposed indirect cost allocation methodology.</p>
<p>Question 4: Do you agree with the proposed approach to balancing levy revenue against relevant expenditure, over several years?</p>	<p>Contact agrees with the proposed approach to balancing levy revenue against relevant expenditure over several years as this supports the move towards trying to achieve stability and simplicity, which we consider to be in the best interests of all involved.</p>
<p>Question 5: Do you agree that the strategic goals proposed are an appropriate basis for providing work programme and cost inputs for levy setting?</p>	<p>Contact is generally very supportive of the GIC's strategic goals and we consider its proposed work programme to be very thorough, covering a</p>

	<p>comprehensive range of issues. We will be particularly interested in the outcomes that come out of <i>Work Area 2: Strategic Issues for the Gas Industry</i>, with alignment with the NZES and determining how the gas industry can assist in the Government's goal of having 90% renewable electricity by 2025 being particularly important parts of this work area.</p> <p>We do however; have some concern that one of the goals in <i>Retail and Consumer Arrangements</i>, is that the GIC should develop model contract terms and conditions ("T&C") between consumers and retailers.</p> <p>The draft Gas GPS dated December 2007 states a requirement to "review, monitor and where warranted recommend appropriate actions to the Minister of Energy on the relationship between the gas industry and consumers for the supply of gas, including ensuring the contractual arrangements adequately protect consumer interests". However, this does not specify that model contract T&C are required. Contact considers that there are other more efficient ways of delivering on this requirement, e.g. setting principles of what should be included in retail T&C and we note that the Electricity and Gas Complaints Commission Consumer Code of Practice already sets out principles.</p> <p>Contact has previously made similar submissions about a principles based approach to the Electricity Commission, in its consultation on model contracts and we recommend that the GIC refers to these¹.</p>
<p>Question 6: Do you agree that the work programme set out above is appropriate to achieving the objectives, outcomes and tasks set in the GPS?</p>	<p>Contact is concerned that the GIC should be adequately resourced to deliver on its challenging work program. We wonder if adding additional resource for information gathering and analysis would be useful.</p> <p>Also, please refer to our answer to Question 5.</p>
<p>Question 7: Do you agree that the indicated budgets are appropriate to the proposed work programme?</p>	<p>Contact considers that the GIC work programme is substantial and the draft gas GPS adds further additional work streams. The GIC should ensure that it is appropriately resourced to deliver on all of these work streams.</p>
<p>Question 8: Do you agree with the calculation of the funding requirements including the allocation of costs between</p>	<p>We agree, given the split outs as noted in the consultation paper.</p>

¹ Contact Submission to the Electricity Commission on Model Retail Contracts, 26 October 2004: <http://www.electricitycommission.govt.nz/pdfs/submissions/pdfsretail/pdfsmodelcontracts/Contact.pdf>; and Contact presentation to the Electricity Commission's Model Retail Contracts Workshop, 22 April 2005: <http://www.electricitycommission.govt.nz/pdfs/opdev/retail/model/Present-Contact.pdf>

the wholesale and retail work programmes and the carrying over of some of the accumulated surplus?	
Question 9: Do you agree that it is appropriate to decrease the levy for 2008/09 to the levels set out above given the requirements of the indicated work programme and Gas Industry Co's statutory obligations?	At this time Contact does not have any significant concerns about the GIC decreasing its levy for the 2008/09 period. We note however, that much of the levy decrease is due to the introduction of dedicated fees and as per Contact's response to Question 1; we do have some concerns with regard to the GIC using dedicated fees.