



29 January 2007

Nicole MacFarlane  
Gas Industry Company Limited  
P O Box 10-646  
Wellington

Dear Nicole

**Submission on Gas Industry Company Consultation Paper "Levy Discussion Paper" dated January 2007**

Thank you for the opportunity to make a submission on the Gas Industry Company Consultation Paper "Levy Discussion Paper" dated January 2007.

Contact supports the proposals made in the Consultation Paper.

I attach Contact's response to the questions set out in the Consultation Paper.

Yours sincerely

A handwritten signature in black ink that reads 'Alex Love'.

Alex Love

## Contact Energy Submission on Gas Industry Company Consultation Paper “Levy Discussion Paper”, dated January 2007

Submission prepared by: Alex Love, Contact Energy Limited

QUESTION	COMMENT
Q1: Do you agree with the proposal not to alter the structure of the levy for the 2007/08 financial year?	Contact agrees with the principles of levy setting summarized in the Consultation Paper and considers that the basis for setting the 2006/07 reasonably reflects those principles. Contact agrees with the proposal not to alter the structure of the levy for the 2007/08 financial year.
Q2: Do participants consider that it is appropriate to change the reference quantities for calculating the wholesale levy from the quarter before the last quarter to the quantity used during the previous month?	Contact agrees with the proposal to change the reference quantities for calculating the wholesale levy from the quarter before the last quarter to the quantity used during the previous month. That will help simplify administration processes required to calculate and approve the levy. It will also mean the levy payments better match gas sales.
Q3: Do participants consider that it is useful to provide a comparison of previous years' costs with the budget figures?	Contact agrees that it is helpful to compare: <ul style="list-style-type: none"> <li>• the previous year's actual costs;</li> <li>• budget costs for the current year; and</li> <li>• budget costs for the year in which the proposed levy will apply.</li> </ul>
Q4: Do you agree with the allocation of costs between the wholesale and retail work programmes?	We agree that GIC costs should be allocated as far as possible to retail activity or wholesale activity in accordance with the classification of the components of the GIC work programme as retail activity or wholesale activity. It is clear that retail activity generates a work programme that has very little or no benefit for wholesale activity. Examples of that are the switching and registry project, the reconciliation project and the distribution contracts project.
Q5: Do you agree that unallocated costs should be split evenly between retail and wholesale?	Splitting unallocated costs evenly between retail activity and wholesale activity appears arbitrary but has the advantage of simplicity. There are other ways to split these costs such as in proportion to the cost of the retail work programme and the wholesale work programme. However, it is difficult to determine whether that is fairer and in any event the outcome would not be greatly different. In the interests of simplicity Contact supports the even split.

Q6: Do you agree that it is appropriate to increase the levy for 2007/08 to the levels set out above given the requirements of the proposed work programme and Gas Industry Co's statutory obligations?

Contact at this time does not have any significant concern about the increase in expenditure forecast for the 2007/08 financial year. The GIC currently has a significant work programme reflecting the initial development stage of construction of an improved framework for the gas industry and the move from closed arrangements dominated by a few players and a single supply contract to an open environment with diverse supply arrangements. Over the next couple of years we expect the GIC work programme to deliver a number of beneficial changes to the industry. However, if GIC is unable to deliver the improvements we will have concerns about the level of GIC expenditure.