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Ian Wilson  
Senior Advisor - Pipelines  
Gas Industry Company  
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Dear Ian

## February 2006 Levy Discussion Paper

Genesis Power Limited trading as Genesis Energy welcomes the opportunity to provide comments to the Gas Industry Company (GIC) on the discussion paper entitled 'Levy Discussion Paper' dated February 2006. Genesis Energy has reviewed the discussion paper and is pleased to have the opportunity to respond to the issues raised in it.

In general, Genesis Energy supports what the GIC proposes. Our responses to the specific questions raised are set out in Appendix One attached to this letter.

If you would like to discuss any of these matters further please contact either myself on 021 375 061, or Blair Ramsay on 09 580 5154.

Yours sincerely

John A Carnegie  
Regulatory Affairs Manager  
Genesis Energy

## Appendix One: Responses to Questions

| Question   | Response  |
|--|---|
| <p><b>Q1.</b> The appropriateness of the levy setting principles set out in Section 5</p>  | <p>Genesis Energy considers these principles are appropriate and supports retaining the current method of gathering the levy.</p> <p>While the current approach could be critiqued based on these principles it is pragmatic, retaining the current method minimises both the administration involved in charging the levy and any corresponding year to year volatility of the levy itself.</p>  |
| <p><b>Q2.</b> Any other matter which should be considered in recommending appropriate levies</p>   | <p>For pragmatism we support the continued use of option 1. We would support however future discussion on moving towards a regime based on a per ICP levy to further simplify the associated administration.</p>  |
| <p><b>Q3.</b> Whether your organisation would support a move from the current annual levy determination, to a two year levy determination period as discussed in section 6.1</p> | <p>Genesis Energy does not support a move from the current annual levy determination, to a two year levy determination period at this early stage of the GIC's existence due to the potential it has to reduce the GIC's financial accountability to the industry. However, having said that, Genesis Energy would be supportive of a move to a two year levy determination period once the GIC has some additional experience around forecasting its workflows and corresponding budget forecasting.</p> <p>Given the costs involved in reconsidering the levy process (every year) we feel that once some experience and trust is gained a two year levy may be a pragmatic solution.</p> |
| <p><b>Q4.</b> The conclusions in relation to the retail levy fixed/variable split as set out in section 6.2</p>  | <p>Genesis Energy considers that as neither the 'per ICP' nor the 'per GJ' approach is theoretically correct, emphasis should be given (as suggested by the GIC) to the most administratively simple (least cost) solution.</p> <p>Also, levied parties are passing these costs on differently, which further dilutes any impact of either solution 'versus' the other.</p>   |

| Question  | Response   |
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| <p><b>Q5.</b> Any thoughts on how the structure of the retail levy might be improved , given the benefit of experience since it's implementation</p>  | <p>Potentially since neither the per-ICP nor the per-GJ approach is stronger than the other, a debate could be had to move to a per ICP levy only. This may have the effect of decreasing administrative costs for companies in collecting the levy.</p>   |
| <p><b>Q6.</b> The theoretical suitability of the suggested 'no-step' retail levy function discussed in section 6.3</p>  | <p>While Genesis Energy can see the merit of the suggested 'no-step' function, we consider that it would be far too onerous to be considered a genuine option.</p> <p>As noted by the GIC, the retailer would have to calculate the levy attributable to each end user and then combine these to get a total amount of levy to be paid. This would be a significant body of work with marginal justification.</p>  |
| <p><b>Q7.</b> The practicality of introducing a 'no-step' retail levy function</p>  | <p>From an economically pure standpoint the proposed 'no-step' levy seems equitable, but the practicality of implementing it would make customers worse off.</p> <p>This type of levy would become a 'stepped tariff' to the customer; the more the customer consumes, the less marginally the customer pays for GIC Levy. Macro changes in consumption (for instance a very warm year or very cold year) would mean customers would pay a different price per unit than for comparable years.</p> <p>A 'no step' levy would involve far more analysis than the current levy structure and would add to the administrative cost in both calculating the levy for customers and providing consumption information to the GIC.</p> <p>The extra cost involved with this approach is likely to remove any economic gain associated with it.</p> |
| <p><b>Q8.</b> The time required for retailers to provide a distribution of end user consumption information for the previous gas year to the Gas Industry Company if a 'no-step' retail levy function were to be introduced</p> | <p>This is likely to take several months.</p>  |
| <p><b>Q9.</b> Any other alternatives which may be more appropriate than the 'no-step' function suggested in section 6.3</p>   | <p>As suggested Genesis Energy would welcome further discussion on moving to a solely fixed charge per ICP levy.</p>   |

| Question  | Response   |
|---|--|
| <p><b>Q10.</b> Whether basing the levy on historic GJ and ICP data, as discussed in Section 6.4, is a significant issue</p> | <p>Genesis Energy does not consider this as a material issue with the current method working well and being administratively simple.</p> <p>We are aware, however, that others within the industry have some concerns around timing and movement of volumes with lagging payments, and would welcome being involved in any further discussion on this topic.</p> |
| <p><b>Q11.</b> Whether you would support a move to using more recent reference quantities</p>                               | <p>On the proviso that this does not become administratively burdensome, we would be supportive if the industry view was that this provides a more accurate levy take.</p>   |
| <p><b>Q12.</b> Any other ways you would support to address the timing issue</p>   | <p>We would happily consider any alternative methods around the timing issue proposed by other industry participants.</p>  |
| <p><b>Q13.</b> Which, of Section 8 Options 1, 2, 3 or 4 you prefer</p>  | <p>Option 1.</p>   |
| <p><b>Q14.</b> Why you prefer that option</p>   | <p>No perfect solution seems to exist, so while the current approach could be critiqued it is pragmatic, and retaining the current method would minimise both the administration involved in changing the levy and any year to year volatility of the levy itself.</p>   |
| <p><b>Q15.</b> Whether there are any other options that you think the Gas Industry Company should be considering</p>        | <p>As suggested Genesis Energy would welcome the opportunity to take part in further discussion on moving to a solely fixed charge per ICP levy.</p>   |