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Dear Bas

SUBMISSION ON LEVY FOR GAS INDUSTRY CO FOR THE 2008/2009 FINANCIAL YEAR

Introduction

1. Thank you for the opportunity to comment on the Gas Industry Company's (GIC's) "*Levy for Gas Industry Co for the 2008/2009 Financial Year*" Consultation Paper, December 2007 (**Levy Paper**). No part of our submission is confidential and we are happy for it to be publicly released.
2. In Mighty River Power's submission on the 2007/08 GIC Levy, we commented on the lack of detailed budget information provided in the consultation paper. Mighty River Power is pleased some of our concerns have been addressed, in particular, the provision of budgeted versus actual figures for the 2006/07 period. However, we consider that further financial information would be useful in levy proposals.
3. Mighty River Power feels that the proposed levy should be extended to include gas pipeline (transmission and distribution) businesses. These entities are involved in activities that are within the scope of the GIC, yet are not subject to any of the GIC's relevant costs.
4. Aside from including gas pipeline businesses in the levy, Mighty River Power does not have any major disputes with the GIC's funding levy proposal, but does still harbour concerns that would be allayed by further transparency of information that make up the basis of this levy.

Provision of increased financial information

5. In Mighty River Power's submission on the 2007 GIC Levy we made the following recommendations with reference to increased information that should be included:¹
 - a. A detailed budget that includes specific costs broken down beyond the work stream level, i.e. to income expense group categories.
 - b. Actual prior year figures verse prior year budgeted figures together with analysis. This analysis should explain if any variance between actual and budgeted figures is due to timing of planned activities (work deferred or brought forward) or permanent cost savings or over-runs.
 - c. Actual prior year figures verse current year budgeted figures together with analysis. This comparison should identify differences in work being undertaken between years.
 - d. Sensitivity analysis. This analysis should provide information on how budgeted costs would fluctuate given changes in key factors. One of the objects of this analysis is to identify the key drivers behind the GIC's levy proposal and provide a frame of reference for industry participants to make an assessment.
6. The only area in which any of these have been addressed is the actual and budgeted figures that have been included for the 2006/07 period, as well as comments on the cause of major discrepancies. This addresses point b, Mighty River Power is pleased that this information has been included.
7. In relation to point a, the comparisons and commentary mentioned above reduces the need for lower level expense group categories, as explanations are included that explain the larger discrepancies for each work stream. Mighty River Power no longer believes a detailed budget is necessary to add to the GIC Levy setting document.
8. Point c has been partially addressed with the increased level of detail and commentary in the work programme. Mighty River Power believes the comparisons and commentary should be extended to include comments on how current years budgeted figures are tracking with current year spending.
9. The sensitivity analysis noted in point d may not be able to identify areas where budgets will be incorrect, but would provide interested parties with the risks faced by the changes in key factors. Interested parties could then assess the likelihood of the key factors changing and convey their respective concern or satisfaction with the budgeted figures.

¹ Mighty River Power submission on the Gas Industry Company Levy Discussion Paper, January 2007 – Paragraph 22

Answers to specific questions

Q1: Do you agree with the proposal not to alter the structure of the levy for the 2007/08 financial year?

10. No. Mighty River Power believes the levy should be altered to include a charge to Gas Pipeline Businesses (GPBs), including both transmission and distribution. Mighty River Power submitted the same view in our submission to the GIC on the Transmission Access Framework, we argued:²

... the funding methodology be changed such that the TSOs and Gas Pipeline Businesses bear a portion of the generic costs ...

11. The 2008/09 budget values show a total of over \$1.3m of costs associated with Distribution and Transmission Access, this represents 28% of the total funding requirement.

12. The general principles that have been developed by the GIC state that the levy “should promote efficient market behaviour” (Economic efficiency) and “should be allocated in a way that reflects the cause of regulation” (Beneficiary/causer pays).

13. In its current form, the funding levy allocates the Distribution and Transmission Access costs to the Retail and Wholesale Work Programme costs. Mighty River Power does not believe this accurately reflects the desired outcomes of the general principles for levy design. These costs are not being allocated to the parties which are causing them. These same parties also have the capability of reducing the costs being incurred by the GIC.

14. Mighty River Power believes that, with respect to the Economic efficiency and Beneficiary/causer pays principles, GPBs should be faced with the costs attributable to Distribution and Transmission Access. This would incentivise the GPBs to reduce these costs and, ultimately, benefit the end consumer.

15. Mighty River Power suggests the GIC levy include a charge to GPBs based on throughput, with a different charge for transmission and distribution businesses. These different charges would reflect the level of costs attributable to transmission and distribution GPBs respectively.

Q4: Do you agree with the proposed approach to balancing levy revenue against relevant expenditure, over several years?

² Mighty River Power’s Submission to the Gas Industry Company: Transmission Access Framework, 21 December 2007 – Section 9: Funding of the Transmission Access Regime

16. Mighty River Power does not disagree with the GIC's policy to stabilise the levies over the medium term, however, we would like further clarification on the process of how this will be achieved.
17. With respect to including previous accumulated surpluses in the 2008/09 proposal, the GIC states that they have:³

... decided to bring through only a proportion, i.e. \$200,000, of its levy recovery to date.
18. It appears that an arbitrary figure has been used, with no information on how the 'proportion' was derived.
19. Furthermore, indications from budget figures show that there will be a large surplus again in the 2007/08 year. The 2007/08 levies were based on a total revenue requirement of \$4.843m⁴ while the latest budget figures show a revised total of \$4.543m⁵. This surplus is excluded from the 2008/09 levy setting "it is assumed that no surplus will be made over the current financial year"⁶.
20. As this surplus of almost \$300,000 is larger than the \$200,000 of previous surpluses that have been brought through, Mighty River Power, with the available information, questions whether the approach being used is actually setting the levy "so that over time the Company's surplus or deficit arising from the levy will trend to zero"⁷?
21. Mighty River Power would like to see the GIC provide further information as to how surplus/deficit funding levels are to be managed over the short-medium term. Mighty River Power also believes, in the interest of end consumers, that the GIC should be wary of holding surplus funds for any longer than necessary as this is effectively using current consumers to subsidise future consumers.

Concluding remarks

22. If you would like to discuss this matter directly with Mighty River Power, please do not hesitate to contact me (on 09 308 8259 or robert.allen@mightyriver.co.nz).

³ Section 6.3

⁴ Gas Industry Company Levy Discussion Paper, January 2007 – Section 7.3

⁵ Section 5.5

⁶ Section 6.3

⁷ Section 4.6

Yours faithfully

Robert Allen
Regulatory Manager