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Dear Ian

SUBMISSION ON GIC LEVY DISCUSSION PAPER, FEBRUARY 2006

Introduction

1. Thank you for the opportunity to comment on the Gas Industry Company's (GIC's) "*Levy Discussion Paper*", February 2006.

GIC's principles for levy setting (questions 1 and 2)

2. Mighty River Power does not have any issues with the principles that the GIC applies to levy setting. We consider them to be a sound generic set of principles. We consider that the most important principles relate to:
 - a. Simplicity of approach; and
 - b. Minimisation of administration costs;
3. Mighty River Power's narrower focus reflects that the impact of the levy on end-user gas prices will consequently be minor, and have negligible impact on consumption decisions. Therefore, for example, considerations of economic efficiency are relatively unimportant.

GIC's proposals (questions 3 and 13)

4. Consistent with the above principles, Mighty River Power agrees with the GIC that:
 - a. Levies should be set once every two years (minimisation of administration costs); and
 - b. Option 1 (Only adjust Wholesale Levy) should be implemented for 2006/07 (simplicity).
5. Option 4 is our least preferred option.

No-step retail levy (questions 6-9)

6. The other comment that we have relates to the consideration of a “no-step” retail levy function. Mighty River Power considers the arguments behind making a distinction between the “mass market” and large (10TJ/year) customers for the setting of the retail levy to be flawed. We also consider that the distinction is contrary to the principle of simplicity.
7. The rationale for the distinction is given as *“the cost of retail activities (switching and registry etc.) are attributed to the “mass market”. This is because the costs arise from the complexity of handling large quantities of data efficiently. If there were only a few hundred large end users, the switching and reconciliation functionality could probably be provided at lower cost...”* This argument fails to distinguish between total cost and average cost. It is certainly the case that the total costs would be lower *“if there were only a few hundred large end users...”*; but the average cost of the switching and reconciliation functionality may be higher – reflecting economies of scale.
8. Mighty River Power considers that the distinction between customers who consume more or less than 10TJ/year should be removed, for the purpose of setting the retail levy.

Concluding remarks

9. If you would like to discuss this matter directly with Mighty River Power, please do not hesitate to contact either me (on 09 308 8213 or neil.williams@mightyriver.co.nz) or Rob Allen (on 09 308 8259 or robert.allen@mightyriver.co.nz).

Yours sincerely



Neil Williams
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