

## Submission regarding Gas Industry Company 2009/10 Levy Proposal

Submission prepared by: Charles Teichert, Nova Gas.

QUESTION	COMMENT
<p>Q 1: Do you agree with the proposal not to alter the structure of the levy for the 2010 financial year?</p>	<p>Nova disagrees with the inference that the levy structure has not been altered. In fact there has been a material change with the addition of Market Fees to recover certain service provider and system developments costs.</p> <p>This year there is a proposed one off recovery of system development costs associated with the new reconciliation processes being employed. Those costs were both significantly more than expected by the GIC and significantly more than the costs of the prior reconciliation arrangements that could simply have been upgraded through improvements to the governance arrangements to provide many of the benefits such as compliance and audit rights achieved by the new regulations and processes at a much lower cost.</p> <p>In addition, it appears that an error in judgement has been made by the GIC in making recommendations to the Minister of Energy regarding the new reconciliation rules without having a firm commitment regarding costs of development at the time the recommendation was made.</p> <p>Notwithstanding, the investment has been made and consumers will ultimately pay for those incremental costs.</p>
<p>Q 2: Do you agree with the proposal to recover the establishment costs of the Gas (Downstream Reconciliation) Rules 2008 by way of a one-off Special Purpose Levy, calculated on the same basis used to allocate the ongoing operational costs?</p>	<p>Nova believes that the recovery of reconciliation costs on a volume basis results in a cross subsidy between consumer groups. TOU consumers, in our view, are cross subsidizing non TOU consumers. A significant proportion of the development costs are likely being driven by the seasonal profiling and daily allocation of non TOU volumes whereas TOU consumer information is more readily dealt with.</p> <p>From a competition perspective there should be minimal impact as all retailers face the same levy structure when competing in the TOU or non TOU segment of the market.</p>

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<p>Q 3: Do you agree with the proposed policy for funding the establishment, implementation and ongoing administration costs of gas governance arrangements?</p>	<p>Nova does not agree with the proposed one off levy to recover the new reconciliation rules establishment costs.</p> <p>The major issue with recovery of those development costs as a one off charge in one year is that current participants (and ultimately, current consumers) are paying up front for benefits derived from a system that may well be enjoyed by others at a later date and as such this may mean that in some cases the principle of beneficiary/causer pays is not met.</p> <p>What should happen is that those costs are recovered through levies over time and while this raises funding issues for the GIC, that is really an issue of industry governance that the co-regulatory model does not deal with well. We do note however that funding options should be open to the GIC such as raising funds from shareholders or receiving finance from a bank on normal commercial terms and repaying that over time.</p>

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<p>Q4: Do you consider there to be any other items in the external work programme which should be included in the Company's strategic priorities for FY2010?</p>	<p>No</p> <p>Areas that we consider that should not be a party of the 2010 work programme or should be scaled back include:</p> <ul style="list-style-type: none"> <li>- development of a mandatory consumer complaints scheme jointly with the Electricity Commission;</li> </ul> <p>This proposal for a monopoly consumer complaints scheme that overrides consumers and suppliers legal rights is economically inefficient and will result in higher charges for consumers. This should be dropped from the work programme.</p> <ul style="list-style-type: none"> <li>- further development of a wholesale market trading platform;</li> </ul> <p>Given the current nature of the wholesale market and the prevalence of significant long term contracts with embedded flexibility it is doubtful that a there will be required a sophisticated costly trading platform in the short to medium term.</p> <ul style="list-style-type: none"> <li>- the consumer issues work programme;</li> </ul> <p>The responses from industry participants to the consultation paper published in late 2008 were consistently contrary to the findings of the Gas Industry Company. The conclusions of the consultation paper were not based on factual evidence and appeared to be based on the preconception that competition was insufficient to deliver economically efficient outcomes and that even if competition was delivering economically efficient outcomes, that outcome was potentially unfair or inequitable in some way. We don't believe any credible economist would support this proposition.</p> <p>The consultation paper proposes a number of solutions to problems (that are not proven to exist) including a monopoly consumer complaints scheme as noted above and minimum service standards and contract terms. We believe that these actions will lead to:</p> <ul style="list-style-type: none"> <li>o a reduction in dynamic efficiencies;</li> <li>o competitors innovative capability being reduced;</li> </ul>

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	<ul style="list-style-type: none"> <li>○ reduced competition</li> <li>○ consumers restricted in their ability to make their own trade off between price and quality;</li> <li>○ increased prices to consumers</li> </ul> <p>Issues relating to consumer protection are better performed through existing avenues such as the small claims tribunal for contractual issues, the Commerce Commission where misleading or deceptive behaviour by suppliers is alleged and the Department of consumer affairs. The Gas Industry Company's duplication of these activities is inefficient and wasteful.</p>
Q5: Do you have any comment on the levy funding requirement for FY2010?	As noted we believe the levy/fee that funds the expenditure on the reconciliation system development should be spread over future years – eg the costs plus interest recovered over a period of 5 years.
Q6: Do you have any comment on the proposed levy for FY2010?	No.