



Vector Limited
Level 8, The Vector Building,
44 The Terrace,
Private Bag 39980,
Wellington, New Zealand

www.vector.co.nz

Corporate Telephone
+64-4-462 8700

Corporate Facsimile
+64-4-462 8600

Bas Walker
Gas Industry Co
Level 9, State Insurance Tower
1 Willis Street
PO Box 10-646
Wellington

1 February 2008

Dear Bas

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

1. This submission represents Vector's views on the Levy for Gas Industry Co for the 2008/2009 Financial Year consultation paper issued by Gas Industry Co (GIC) in December 2007.
2. Our submission is structured so as to firstly provide general comments in relation to the consultation paper. We then provide answers to GIC's specific questions.

Vector's General Comments

3. Vector is pleased to observe that the level of information provided to industry participants by GIC as part of this years' consultation has improved considerably, providing the ability for more informed comment from stakeholders. Vector believes there is further scope to improve the information provided and more specific comment is provided later in this submission.
4. Vector maintains a key risk for GIC during the 2008/09 year will be to ensure that its work streams achieve an appropriate balance between meeting milestones and achieving quality outcomes that provide the most appropriate solutions to achieving the Government Policy Statement (GPS) objectives. As noted in GIC's annual report¹, Vector agrees that instances will continue to arise where it is sensible to alter milestones to achieve better outcomes and Vector hopes that this philosophy will, where necessary, be applied by GIC in practice.

¹ "Gas Industry Co Annual Report 2006/07" page.2

5. Vector also briefly notes that several uncertainties are likely to arise this year in terms of workload and levy derived from volumes of gas sold. The draft GPS will undoubtedly provide the need for the GIC's work streams to be reviewed and the recently announced start up of the current mothballed Methanex plant is likely to result in greater overall gas sales than forecast.
6. Vector repeats its previous support for the public release of issues discussed, noted and agreed at GIC Board meetings. Whilst Vector maintains that full disclosure of Board minutes is not appropriate, a high level summary would improve the level of transparency at GIC and allow industry participants to better assess the progress of current work streams.

Q1: Do you agree with the proposal not to alter the structure of the Levy for the 2008/09 year?

7. Vector agrees with the proposal not to alter the structure of the Levy.
8. On a minor point, GIC's question refers to the 2007/08 financial year. However, Vector believes this should read:

"...2008/09 financial year" and has assumed this to be a typing error.

Q2: Do you agree with the proposed policy for funding the implementation of gas governance arrangements?

9. The 2008/09 year will be a critical one for GIC as implementation begins across many work streams. Vector believes there will be increasing expectation for GIC to demonstrate how its work streams are delivering best value for consumers.
10. Vector would encourage GIC to be aware of this when finalising and resourcing its future work programme. As gas consumers ultimately fund the requirements of the GIC through the Levy, Vector would encourage GIC to more explicitly consider the financial impact on consumers, assessed against the benefits they receive, when resourcing its work programme moving forward.
11. In addition, Vector considers it important for GIC to assess how costs for the implementation of work streams are passed through to consumers. For instance, in the case of the gas registry, Vector believes there should be a high degree of transparency as to how costs, or savings, in the form of dedicated fees are passed through to consumers as a direct result of improved efficiency across the industry.

12. Vector considers it important for GIC to demonstrate to consumers how they are benefiting from the work undertaken by GIC. Vector suggests GIC liaises with consumer representatives at the earliest opportunity to ascertain how this can best be achieved in meeting their expectations. Similarly, it will continue to be important for GIC to periodically review how industry participants represent and collect GIC's Levy requirements from consumers.
13. Vector considers that responsibility for the decision on how to most appropriately recover costs from consumers, either via the general levy or dedicated fees, should rest with GIC as opposed to individual industry participants. Vector considers that, where dedicated fees are employed, there is likely to be an expectation for GIC to demonstrate corresponding reductions in its general levy. This would generally be indicative of the expected life cycles of GIC's work streams following implementation.
14. Vector believes the aggregate effect should be that consumers do not face significant increases in total levies payable to GIC where the corresponding benefits have not been clearly identified.
15. Further comment by Vector on this issue of how, where or when dedicated fees will apply would have been useful as part of the GIC's consultation paper as this will better enable all stakeholders to more accurately establish whether GIC's funding requirements for the coming year are reasonable.

Q3: Do you agree with the proposed indirect cost allocation methodology?

16. Vector believes the proposed indirect cost allocation methodology is appropriate.

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

17. Vector is not clear that the 'balancing' approach proposed by GIC is appropriate.
18. In theory, Vector believes that any over recoveries of the Levy should be returned to those paying the Levy (i.e. consumers) at the earliest opportunity. However in practice this may not be practical and a simple accrual process may be appropriate.
19. Vector also believes GIC has a responsibility to accurately forecast both its revenues and costs in future years. Vector considers that greater emphasis should be based on such an approach as opposed to simply over recovering Levy payments which may or may not be required.

Q5: Do you agree that the strategic goals proposed are an appropriate basis for providing work programme and cost inputs for levy setting?

20. Vector agrees the strategic goals proposed by GIC generally appear to be appropriate.

Q6: Do you agree that the work programme set out is appropriate to achieving the objectives, outcomes and tasks set in the GPS?

21. Vector agrees that the work programme appears appropriate.

22. Vector would like to continue to emphasise that the New Zealand gas industry is relatively small (compared to gas sectors internationally and electricity domestically) and has an inability to absorb costs that are not essential to the operation of its relevant markets. Vector believes GIC should be cognisant of this fact when deciding upon the appropriate level of resources required by it to deliver solutions to the GPS objectives, as these should generally be in line with the size and needs of the industry.

Q7: Do you agree that the indicated budgets are appropriate to the proposed work programme?

23. Vector is unable to comment in response to this question based upon the level of information provided.

24. Vector notes that, in previous consultation submissions received from other industry participants, comment has been received by GIC suggesting that detailed information on project out-turns and estimates of any benefits derived would be useful for determining future budgets.

25. Vector believes this would be useful for the purposes of establishing the entire costs of a project over its life cycle. This would also enable industry stakeholders to better identify the costs of a project and how these have varied from the forecasts provided by GIC.

Q8: Do you agree with the calculation of the funding requirements including the allocation of costs between the wholesale and retail work programmes and the carrying over of some of the accumulated surplus?

26. Please refer to Vector's previous response to Q4.

Q9: Do you agree that it is appropriate to decrease the Levy for 2008/09 to the levels set out above given the requirements of the indicated work programme and Gas Industry Co's statutory obligations?

27. Vector appreciates that GIC faces uncertainties regarding the level of revenues it receives and that volatility of gas volumes adds to this uncertainty.

28. As mentioned earlier, Vector understands it may be reasonable for GIC to assume that Methanex is likely to increase production at its Motunui methanol plant during both the 2007/08 and 2008/09 financial years. This could result in a noticeable increase in overall wholesale gas volumes being consumed and Vector believes it would be useful for GIC to investigate this possibility further and factor it into their Levy calculations for the corresponding period. This may have the effect of reducing the wholesale Levy further whilst meeting the funding requirements of GIC.

29. Thank you for considering the comments raised in this submission. If you have any queries, or require further information, please feel free to contact me in the first instance at ewan.gebbie@vector.co.nz or on 04 462 8657.

Kind regards



Ewan Gebbie

Group Manager Regulatory Performance