



Vector Limited
101 Carlton Gore Road
PO Box 99882, Newmarket
Auckland, New Zealand
www.vectornetworks.co.nz

Corporate Telephone
+64-9-978 7788

Corporate Facsimile
+64-9-978 7799

17 March 2006

Mr. Ian Wilson
Gas Industry Company Ltd.
Level 9, State Insurance Tower
1 Willis Street
PO Box 10-646
Wellington

Dear Ian

GAS LEVY ARRANGEMENTS 2006/7

1. Thank you for the opportunity to comment on the proposed Gas Levy arrangements for the 2006-7 financial year.

Summary of Vector's View

2. Please note that Vector endorses views expressed in both Vector and NGC's previous submissions on the levy in 2005. Vector generally agrees with the principle of administrative simplicity as promoted in the discussion paper, and that a balance between wholesale and retail cost recovery be maintained.
3. Vector believes however that the current structure of the levy could be altered to better reflect the market conditions faced by gas wholesalers and retailers. Vector proposes a simplified levy based on the adoption of flat fees per GJ and per ICP as described below. We have also commented separately on specific issues raised in the discussion paper.

Design Problems Of The Current Levy

4. As noted in the discussion paper, levy setting is a trade-off between the objectives of precision, simplicity, equity and ease of implementation, amongst others. While Vector supports the intent of the current regime to satisfy the stated objectives, we believe that the current regime focuses on precision at the expense of these other objectives. The resulting complexity is unnecessary and paradoxically creates uncertainties that impact fairness and ease of implementation.

Making the current regime more fair to consumers

5. Retailers faced with passing levy-related costs on to consumers are forced to charge their customers twice. Those who purchase their gas directly upstream can charge either the wholesale levy or the retail levy to each customer. Resellers purchasing from aggregators like Vector, however, not only have to recover the wholesale or retail levy charged directly by the GIC against each of their customers but must also recover the wholesale levy Vector must pass through to them. This combined with the need to determine the "wholesale" or "retail" status of each customer makes the current levy regime difficult to administer and adds unnecessary costs.
6. Vector proposes that therefore should not have to charge the wholesale levy to the retail divisions of other resellers. We should only charge the wholesale levy for gas supplied directly to power stations.

Simplifying The Levy

7. In Vector's view, the current charging regime is unnecessarily complex and the split between "Retail" and "Wholesale" fraught with problems. The 10TJ threshold to the retail levy is difficult to manage for a retailer and presumably difficult for the GIC to police.
8. Vector suggests removal of the Wholesale/Retail split completely and charging the following:
 - A 1.5 c/GJ levy on all gas purchased from producers, and
 - Dropping the 10TJ limit to the retail levy and making a fixed charge (e.g. an estimated \$10/year) for every ICP in the country regardless of gas usage.
9. This also obviates the "step" problem in the levy and would be easier for the retailers to bill and administer.

Other Issues

Levy Review Period

10. Vector would support a move to a two-year levy determination period. This would lower the cost and uncertainty to the GIC and hence to industry.

Historical versus current consumption

11. Any c/GJ charge should be based on actual usage each month. The current charge based on historical consumption creates significant problems for a retailer, as a pure pass-through is almost impossible in a competitive environment where customers are switching frequently. This discrepancy becomes increasingly marked when large users switch gas suppliers.
12. If the levy were simplified as described above this would be straightforward as the variable levy component would only be charged to wholesalers and could be applied in real time, as with GST or the Energy Resources Levy.

Concluding Remarks

13. Vector is happy to provide further information as required, and would welcome the opportunity to work with the GIC further on this matter. Please contact me in the first instance.

Kind regards

A handwritten signature in black ink, appearing to read 'P. Hodgson', with a long horizontal flourish extending to the right.

Paul Hodgson

Group Regulatory Affairs Manager