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By email

Nicole MacFarlane  
Gas Industry Co  
PO Box 10-646  
Wellington

2 February 2006

Dear Nicole

**Submission on Gas Levy Proposal**

1. Vector welcomes the opportunity to submit on the Gas Industry Co's (GIC) proposed levy arrangements and work schedule for the 2007-08 year. Vector also appreciates the extension provided but for the record notes the time allowed to submit was short, given the magnitude of the issues. Vector questions the need for such a swift and potentially less thorough process when the new financial year does not start until July.
2. Vector would also comment that the GIC has now successfully established itself as the gas sector's co-regulator, and is well placed to contribute to continued development in the sector. However, Vector believes a key risk to be managed this coming year will be to ensure that the rush to pursue outcomes driven by a desire to satisfy deadlines does not compromise achieving the best solutions.

**Levy Structure**

3. In answer to Q1, Vector generally supports the structure of the levy remaining the same, but has some concerns that arise from a lack of transparency of previous GIC performance against budget (as outlined below).
4. In answer to Q2, Vector fully supports the move from the use of the previous quarter consumption to calculate the wholesale portion to one where current consumption is used. This resolves the current problem where customers continue to be billed for their GIC levy months after a supply contract expires and all other billing has ceased.

**Levy Amounts**

5. In answer to Q6, while Vector appreciates the need for the GIC to be sufficiently resourced to carry out the work required, Vector believes consideration is needed

of the effect on gas consumers and stakeholders of such a considerable increase in levy fees, and believes there is a need for a more measured approach and recognition of issues at play in the wider regulatory environment.

6. One work stream in particular stands out in this regard - model distribution contracts. Given the uncertainty of outcomes and resulting high probability of change in incentives on gas distribution companies (and corresponding shape of any contracts) emerging from the Minister of Commerce's review of Parts 4, 4A and 5 of the Commerce Act, it is appropriate to wait until the 2008-09 year to proceed on this issue. Vector believes such a significant budget for this work stream is not appropriate at this time.

#### Transparency

7. Vector supports the GIC's endeavours to be as open and transparent as possible (para 6.27), understands that variations occur (6.40) and that there is a need for contingencies. However, it appears to Vector that the GIC could improve its openness through developing appropriate processes to deal with variations.
8. One improvement would be to reconcile the GIC's actual costs against predicted forward work programmes and adjusting the forward levy accordingly, taking any variations into account. This would ensure all contingent spending was appropriately allocated over time. This should also apply to any unallocated costs, which may, in retrospect be allocated to wholesale or retail matters.
9. Vector understands there have been several requests for Board minutes to be made public in the interests of transparency. Vector does not support full disclosure of minutes as they are a record for directors, and may become compromised if their purpose is broadened. However, Vector does support the public release, where appropriate, of issues discussed, noted and agreed at Board meetings.
10. If you would like to discuss any of these matters further, please contact me in the first instance.

Yours sincerely



**Ewan Gebbie**

Group Manager Regulatory Performance