



Rt. Hon James Bolger ONZ
Chairman
The Gas Industry Company Limited
P O Box 10-646
WELLINGTON

Gas Industry Company Levy Consultation

Dear Chairman,

Thank you for the opportunity to contribute towards the consideration of the proposed GIC levy structure and rate. Genesis Energy has considered the contents of the GIC Levy Proposal and our comments follow.

Overall Review of Levy

The GIC Levy proposal presents a levy mechanism that will be a dynamic arrangement; your covering letter states the levy will be reviewed annually with consultation at each annual review. Genesis Energy considers these reviews important; as you state the activities of the GIC will change and evolve, and a transparent means of apportioning the appropriate costs of these activities is proposed. Genesis Energy agrees that 'the levies on participants will become part of their overall costs, and will be passed onto consumers to a greater or lesser degree'. The consumer is likely to pay what will be an increased cost for the gas industry, irrespective of which stage in the gas supply chain the levy is charged.

Levy Structure and Rate

The GIC has sought comment on the proposed structure and levy rate. Genesis Energy agrees that the currently proposed levy is too small (in its proposed percentages) to distort the market for gas. We consider care must be taken however to avoid the costs of the GIC becoming too high and thus also the levy, introducing the potential for market distortion. We consider the electricity commission's levy may not be a useful comparison as this levy also pays for market service provider fees. The GIC poses the question of whether we consider it 'fair' to not levy network operators or attempt to levy existing producers. We consider that this may be a moot point given these costs wherever imposed are likely to be passed downstream and borne by gas consumers anyway.

Levying Non-specification Gas

The GIC asks if we consider it appropriate to levy both spec and non-spec gas. Genesis Energy considers it prudent to levy both as suggested, avoiding any future potential for non-specification gas to cause market distortions.

50/50 Levy Allocation

The GIC seeks comment on the proposed 50/50 split in the allocation of the levy between retail and wholesale. As this is based on the GIC's forecast workloads Genesis Energy considers this



reasonable, on the proviso that there is a transparent annual evaluation. Genesis Energy suggests that a mechanism for washing up the previous years levy allocation or altering the following years levy allocation based on the previous year's activities could be considered.

Point of application of the Levy and Cost Recovery

The GIC is suggesting that it's costs are recovered from firstly upstream suppliers in proportion to their market share as beneficiaries of reduced costs and enhanced wholesale markets, and secondly from retailers to small users in proportion to market share as beneficiaries of the promotion of retail competition and consumer protection. The GIC has sought comment on the points of application of the levy.

Genesis Energy considers payment of the retail levy by retailers appropriate, based on consumption by customers they have who use less than 10TJ's per annum.

We consider the imposition of the wholesale levy at the gas transmission off-take point may be contentious within the industry but it is a reasonable starting point as these costs are likely to be passed 'downstream' and ultimately absorbed by the gas consumer, both wholesale or retail.

Genesis Energy considers both of these reasonable starting positions on the proviso that the levy and its cost drivers (wholesale versus retail) are reviewed annually and adjusted as activities evolve.

Overall Comment

The GIC is seeking comment on the balance between practicality and fairness in its proposed levy mechanism. Genesis Energy believes no perfect solution exists. We consider the proposed levy a reasonable starting point on the basis of:

- Annual transparent reviews being conducted with contributions accepted and considered from market participants;
- The GIC being mindful of becoming a material cost to the gas market and perhaps introducing distortion;
- Non-specification gas being levied;
- The initial 50/50 levy allocation being critically evaluated at each review;
- Application points of the levy are critically evaluated at the first annual review and then evaluated when considered appropriate.

Yours faithfully

Blair Ramsay
Gas Portfolio Manager
Genesis Energy Limited