



MAJOR ELECTRICITY USERS' GROUP

15 April 2005

Mr Richard Longman
The Secretariat
Gas Industry Company Limited
PO Box 10 646
WELLINGTON
By email to richard.longman@gasindustry.co.nz

Dear Richard

Submission on GIC Levy Proposal

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Gas Industry Company (GIC) discussion paper, *GIC Levy Proposal*, dated 24 March 2005.
2. MEUG believe the discussion paper has insufficient information on the costs to be recovered by the levy and offsetting savings from existing taxes. In particular MEUG submit:
 - a) The GIC cannot establish a levy proposal to recommend to the Minister until such time as detailed costs as required by sub-sections (1)(a) to (1)(h) of section 43ZZC of the Gas Amendment Act 2004 are made available for consideration by interested parties. The initial estimate of \$3.6m referenced in the discussion paper fails to meet that requirement.

In addition full details of the proposed of initial funding by some shareholders set out in section 1 of the discussion document should be disclosed, including any proposed interest rate.

- b) The GIC should, on behalf of the industry, reach agreement with Government on cost savings that will be made in Vote: Energy as a result of the GIC now meeting some activities previously administered by MED, eg sub-section 43ZZC (1) (e) "the costs of providing advice to the Minister on matters concerning the gas industry." The gas industry is already subject to special taxes that should be reduced accordingly, ie
 - i) 45 c/GJ ERL; and
 - ii) 2 c/GJ Gas Levy

3. Only after full details of proposed costs pursuant to section 43ZZC of the Gas Amendment Act will interested parties be able to make an informed assessment of the most efficient tax incidence to reflect where costs lie or benefits arise. Without these details being known, it is premature to comment on the details of the proposed levy structure. However some general comments on the proposals set out in the discussion paper follow:

a) The discussion paper does not adequately compare alternatives for recovering wholesale related costs¹. For example the GIC only considered upstream versus downstream options. Other options the GIC should have considered are:

- A mix of sellers and buyers in the wholesale market; and
- Taxing the gas transmission company(s), who would then recover the tax in their standard gas transmission charges

The GIC analysis should also have examined the relative deadweight loss impacts and tax incidence on the wholesale supply and demand curves.

b) The discussion paper fails to define exactly the boundaries of the wholesale gas market. For example there is a reference to "gas at offtake points from the Maui and NGC transmission grids, and from other transmission pipelines." Exactly which existing pipelines fall into the latter and what rules would apply to new high pressure pipeline investments in the future should be explained.

c) Retail switching mechanism costs are independent of volume used. The cost of retail mechanisms will be driven by the number of end gas user connections. Therefore the costs for retail mechanisms² should be applied to retailers as a function of the number of end gas user connections they have.

The GIC Levy Proposal discussion paper proposal for a 12c/GJ levy for all sales to consumers below 10 TJ pa will lead to larger retailer consumers subsidising smaller consumers for the cost of a service that does not depend on gas volume consumed. Cross-subsidies are sometimes warranted, but this does not appear to be such a case.

Yours sincerely



Ralph Matthes
Executive Director

¹ The discussion paper "initial" estimate of wholesale related costs is \$1.8m. As noted in paragraph 2 above, MEUG believe this "initial" estimate does not satisfy the requirement in the Act for more detailed cost estimates.

² The discussion paper "initial" estimate of retail switching costs is \$1.8m. As noted in paragraph 2 above, MEUG believe this "initial" estimate does not satisfy the requirement in the Act for more detailed cost estimates.