

The NGC Building
44 The Terrace
Private Bag 39980
Wellington Mail Centre
Phone +64 4 462 8700
Fax +64 4 462 8600



15 April 2005

The Secretariat
Gas Industry Company
PO Box 10 646
Wellington

Attention Richard Longman
Richard.Longman@gasindustry.co.nz

Submission on the Gas Industry Company Levy Consultation Document

NGC welcomes the opportunity to comment on the Gas Industry Company's levy on the industry to recover its costs. NGC has been a strong advocate for the establishment of the Gas Industry Company (GIC) and supports the work being done to move the sector to a new era in governance and performance.

In NGC's view, the discussion paper gives a clear and concise description of the proposed levy and the surrounding issues, and goes a long way toward settling the matters in hand in a pragmatic and effective way.

NGC provides the following comments with a view to satisfying the need for a simple and effective process for gathering the levy. NGC believes it is important for all GIC members to be cognisant of the need for the GIC to deliver on its objectives in a timely fashion, and that the levy is one of a number of important issues to be resolved in the coming months.

Of primary concern to NGC is that a levy arrangement is in place as soon as possible so that the GIC can move on to addressing other issues. NGC therefore supports any reasonable levy structure that can be implemented as soon as practicable.

The following comments are suggestions for improving the proposed levy arrangements. They are primarily to assist the GIC to implement levy arrangements that are put in place without delay, and secondarily to assist in achieve balance between simplicity and accuracy while also based on sound principles in levy collection.

NGC understands that Vector has provided detailed comments on the standards to be met to ensure procedural correctness and analytical robustness. NGC agrees with Vector that establishing robust processes and analysis is important for the GIC's future and expects the levy mechanism to be tested to this standard in the coming year.

Specific Comments

1. Levy Structure

NGC supports the discussion paper's comment that the GIC's activities are primarily designed to lower costs and provide more open competition. This wording is a succinct description of the Government Policy Statement on Gas Governance.

NGC also agrees with the follow on statement in the paper that consumers ultimately gain from enhancements to the operation of gas markets. It is therefore essential that the GIC ensure the industry participant tasked with paying the levy is able to recover that levy from consumers prior to its enforcement.

NGC is of the view that the levy's small size relative to other charges flowing through the sector, that price signals will cause no significant intra gas sector behaviour change. The levy structure therefore does not need to be applied in the most pure economic fashion, however as far as practicable there should be a link between benefits and costs.

To clarify, any application of the levy that results in a pass through to a downstream market participant with little effect should be minimised, as this double handling increases administration and transaction costs with no net benefit and increases the risk of unintentional double charging.

Bearing in mind NGC's support for levy arrangements that can be implemented without delay, the following is NGC's preferred levy structure designed around collecting via customer class. While these are NGC's preferred arrangements, and are intended to assist in finding solutions, they should be viewed as less of a priority in the short term than implementing the levy without delay or due process.

NGC Alternative Structure

This alternative structure has been discussed with Castalia. It is proposed on the basis that collection via customer class offers the GIC greater ongoing control over which consumer class pays for the levy, depending on the nature of work being carried out by the GIC. For example, in future, the GIC may have an annual work program with benefits exclusively derived by wholesale (generation and industrial) customers, and it could restructure its levy charges accordingly.

This alternative structure would target a single point of application (the party to whom the responsibility for collecting the levy is given), immediately prior to all classes of end use consumers – generators and large industrials, through to small retail consumers. A practical basis on which to recover via customer class is through ICPs registered to each retailer/wholesaler (nominal ICPs could be created to generators and/or other users who may not have them).

Based on information held by NGC Distribution, Gas Consumer ICPs can be used as a proxy for customer class via the meter type/capacity, using throughput where necessary. At NGC this information is maintained and verified over time as it forms an input to the applicable charges to end use customers.

The principle of splitting the levy according to who benefits would then apply to classes of consumers, but could also potentially be broken into more specific consumer categories, depending on the actual distribution of the customer classification curve (derived from aggregate ICP and meter capacity information).

With the benefit of experience gained through this years work programme it should be possible to make a more informed assessment of the costs and benefits of this proposal.

2. Levy Rate

While the GIC has yet to finalise its initial budget, NGC notes an apparent increase to \$3.6 million. While NGC appreciates the difficulty in projecting costs for an organisation in its first year of operation, as a shareholder NGC would like to see some link between the draft work programme and the underpinning budget.

While a number of activities are to be carried out by the GIC, NGC believes a significant proportion of the required work is derived from various other work streams underway like the Maui Open Access process, the Electricity and Gas Complaints Commission Scheme, the National Gas Outage Contingency Plan etc.

3. Cost Allocation

NGC believes it would be helpful for the GIC to more clearly define wholesale and the involved parties. There is some risk of misunderstanding within the industry on this as broadly speaking it could mean either “wholesalers” with end use customers such as generators and large industrial end use customers, or it could mean “wholesalers” who then on sell to retailers who then on sell to retail customers. The essential difference is the number of parties between the wholesaler and the end use consumer.

The approach proposed by the GIC needs to be supported with a commitment that the use of funds can be auditably traced to the activities carried out by the GIC. Once progress is made on the work programme, it may become clear that the majority of the activities are at one of the customer levels and appropriate adjustment made to the levy allocation.

4. Coverage

NGC fully supports the coverage being extended to non specification gas. NGC can see no clear rationale for excluding a gas from these levy arrangements as they stand to benefit from the GIC’s activities to the same extent as specification gas – and also potentially add to the cost of activities through increasing the breadth of considerations.

NGC suggests that the appropriate way to define the circumstances of coverage versus non-coverage should be “where there is an interconnection, or reasonably practicable possibility of interconnection”. For example, if gas is tapped into in Wairoa, and there is no reasonable practicable possibility that a pipeline would be constructed to interconnect; then under these circumstances that gas should be excluded from the levy arrangements.

5. Points of Application and Verification

NGC believes that where possible an independent party should provide the required information to the GIC for calculating the levy. Allocation agents operate independently in the gas sector and could play an important role. This role and the information provided to it, along with the verification procedures involved, should be sufficient for the purposes of levy collection except in the case where only one retailer exists at a delivery point. It should not be difficult to come up with an alternative verification tool in these circumstances, and these occurrences are very rare.

In the unlikely event that it is required, NGC is happy to provide non-confidential information to the GIC to assist it with its calculation and collection of the levy. In most circumstances it should not be difficult to aggregate information required to a point where the GIC can use it.

In the unlikely event it is required, any information of a confidential nature will need to be cleared by the relevant parties. If it believes this is an issue the GIC will need to ensure appropriate wording in the regulations explicitly state that pipeline companies must provide the necessary information.

6. Rebate to Relieve Variation in Levy Collection and Annual GIC Costs

NGC is of the view that it is worthwhile for the GIC to add provisions that in the first instance excess levies would be used to pay down established loans. Once this has been done, there should be a mechanism to rebate levies to the relevant sector.

Yours sincerely

Ewan Gebbie
Regulatory Advisor