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bcc

Subject Gas levy consultation

Richard

Powerco offers the following comments in regard to the GIC Levy Proposal Discussion Paper dated 24 March 2005.

In general we agree with the approach proposed and the recommended methodologies for the allocation of costs and the levy bases and collection points.

In particular we agree with the principle that the costs should lie with those who stand to gain economic benefit from the output of the GIC's work. We also agree with the assessment of the GIC and the proposal that costs are recovered from upstream suppliers and downstream retailers. We share the view that any benefits accruing to network owners would be passed on to network users and as such attributing costs to them would require a pass-through, which would be inefficient.

We do have some concerns however that any pass-through of the levy by retailers to end consumers should not act as a deterrent to new connections or encourage existing consumers to disconnect from distribution networks. We accept that the GIC will have no direct control over how or if retailers pass the levy through but we believe the GIC does have some influence in this in the way the costs are allocated and the recovery is structured. Our concern mainly lies with gas consumers who consume very low volumes of gas.

In this regard we agree with the pragmatic decision to apply the levy on a per GJ basis rather than a per connection basis and also to apply a uniform rate rather than a higher per unit charge for smaller users. We would suggest that consideration be given to going a little further than this and excluding the gas volume consumed by very small consumers, say below 10GJ per annum from the levy.

A further concern we have is that the levy proposals appear to apply only to natural gas delivered by transmission and/or distribution pipelines. If this is the case and costs eventually fall on the consumer, then it further erodes the competitive position between natural gas and LPG.

We note that the Gas Act 1992 includes LPG in the definition of "gas" but have not attempted any assessment of the legal position as to whether LPG sales and/or pipeline delivery could or should be included in the ambit of the GIC and covered by the levy.

It may be that this issue has already been considered and decided although this is not readily apparent from the Discussion Paper.

Regards

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