



20/7

18 April 2005

Rt Hon J Bolger (ONZ)  
Chairman  
Gas Industry Company  
P O Box 10-646  
WELLINGTON

Dear Jim

**GAS INDUSTRY COMPANY LEVY PROPOSAL**

I refer to your letter of 24 March 2005 seeking comment on the proposals for the application of an industry levy by the Gas Industry Company (GIC).

Having considered the proposals Wanganui Gas Limited (WGL) wishes to seek clarification of certain parts of the proposals, to comment on the proposals and also suggest some alternatives to the proposals.

1.0 Levy Format

WGL is concerned that the proposal to levy a flat rate of 1.5 cents/GJ on wholesale gas sales and 12 cents/GJ on retail gas sales will have a negative impact on gas sales. We believe that the impost of the levy will make gas uneconomic for some small users and make gas less competitive against other forms of energy. However we accept that the collection of \$1.8 million from a levy on all natural gas sold is a fair method of collecting half of the funds required by the GIC.

To raise the remaining \$1.8 million referred to as the retail-related share it is our opinion that an annual charge applied to each customer would be a better option for the following reasons:-

1.1 Simplicity

It would be very easy for the network operators to include an amount of \$7.66 (the figure quoted in the proposal) in their line charges for each ICP. It would also be far easier to set the levy by simply dividing the total amount required

**WANGANUI GAS LTD.**

by number of active ICP's than to attempt to forecast what the annual gas consumption is likely to be to recover the levy based on gas sales.

## 1.2 Equity

The cost of switching a customer is the same irrespective of the customer's gas volume and a fixed annual amount of \$7.50 per customer is far more equitable than making large users pay more than small users.

Within the mass market it costs the same to switch a customer using 10 GJ of gas a year as it does to switch one using 5,000 GJ. Yet under this proposal the cost of the levy to the 10 GJ customer is, including the wholesale levy, \$1.35 per annum whilst the larger customer will pay \$675.00. If a fixed annual charge is applied then the retail levy would be an estimated \$7.66 per annum.

A levy on the amount of gas used is also likely to hit those who can least afford to pay increased gas charges. Typically residential customers with a young family will use more gas for both heating and cooking. The higher the gas use the higher the levy yet there is no allowance to determine if such customers can actually afford to pay a higher levy. The question is however why should they if there is no relationship between the size of the customer and the costs that they create for the gas industry.

## 1.3 Gas Competitiveness

A flat charge per annum per customer is less likely to have a negative impact on gas growth. WGL has always been active in developing the gas market within the Wanganui area through our appliance retail business. However the application of the levy on a per GJ basis could have a negative impact on our efforts to grow the gas market. Again we would suggest that making a customer pay a larger proportion of the levy just because they want to use more gas is inequitable.

## 1.4 Verification

It is far simpler to have each network operator declare the number of their active ICP's on a monthly basis and be responsible for the collection and disbursement of the associated funds. It would also be much easier to verify and audit the networks' ICPs as they are already subject to the requirements of information disclosure.

## 2.0 10 TJ Limit

The application of a fixed annual charge as described above would, in WGL's opinion, apply to all reticulated gas customers regardless of size. This exclusion would therefore not be required.

However based on the current proposal WGL seeks clarification on the 10TJ limit proposed by the Gas Industry Company (GIC). Does the 10TJ limit apply at an individual ICP level or does it apply to a single customer who may take gas at a multiply of sites that have an aggregate annual gas use in excess of 10 TJ?

### 3.0 Introduction of Levy

#### 3.1 Advice to Gas Users

Prior to the introduction of the levy retailers will need to advise their customers what the levy is, what it is for and what the impact on the cost of delivered gas will be. It is our opinion that it would be beneficial if all retailers provided a consistent explanation of the levy to their customers. This would ensure that there was a consistency in the message and the way that it was promulgated to gas customers. WGL would therefore recommend that the GIC prepare a letter or statement that retailers can forward to their customers explaining why the levy is being applied to gas customers and the benefits that will accrue from it.

#### 3.2 Levy Collection and Administration Costs

WGL will obviously face additional costs as part of the proposal for the introduction of the GIC levy. In addition we will incur extra costs as follows:

- Modifying our billing system to include the levy on our customers' accounts
- The administration of the collection of the levy
- Dealing with customer enquiries and complaints about the levy.

While we accept the need for the levy it is obvious that any increased administration costs that result from the imposition of the levy will need to be recovered from the customers and we are concerned at the negative impact on the competitiveness of gas.

### 4.0 Collection and Payment of the Levy

WGL would expect to recover the proposed levy by invoicing it as a separate line item on all customers' invoices from the proposed introduction date of 1 July 2005. We believe that the issues associated with this are: -

4.1 The levy can only be recovered after the first complete billing following its introduction on 1 July 2005. If this is not the case then some form of apportionment will be required for accounts that cover a period prior to and after 1 July 2005. If however a fixed daily charge levy was applied as suggested above then the levy could be collected on all gas accounts issued after 1 July 2005.

4.2 Retailers will be acting as a collection agency for the levy therefore will pay the GIC the levies collected each month on the 20<sup>th</sup> of the month following

collection. Please note that WGL operates a bi-monthly billing cycle for our gas only customers.

- 4.3 In the event that a customer defaults on its payments to the retailer and the amount owing is subsequently written off as a bad debt the retailer should be able to recoup the levy component from the GIC by deducting that amount from a subsequent payment.

I hope that the above is of some assistance to you in these matters. If you would like to discuss any aspect of the matters raised above then please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'T. Goodwin', with a stylized flourish at the end.

Trevor Goodwin  
**CHIEF EXECUTIVE**