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Peter Davies
Gas Industry Company Ltd
Level 8, Todd Building
95 Customhouse Quay
WELLINGTON

By email: submissions@gasindustry.co.nz

Dear Peter

FY2011 Work Programme and Levy

Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide a submission to the Gas Industry Company on the consultation paper "Gas (Levy of Participants) Regulations 2010" dated 23 December 2009.

Genesis Energy's responses to the consultation questions are in Appendix A and additional comments are set out below.

Genesis Energy is comfortable with the proposed levy. We understand that the proposed levy increase largely reflects the volatility that comes with the policy of not using over-recoveries to smooth the levy from year to year. In previous years, this same policy has helped to reduce the levy payable by consumers.

Given that a large portion of the Gas Industry Company's work is now market operations rather than policy development and rule making, Genesis Energy considers that it would be timely for government to review whether funding could move to a multi-year appropriation model in conjunction with transferring market fees into the general levy. This could provide a better fit with the Gas Industry Company's funding requirements, while also allowing for a more efficient and streamlined annual levy adjustment process.

Genesis Energy sees value in much of the work that the Gas Industry Company does and suggests that, if anything, there is scope to add to the proposed work

programme. Three additional areas that Genesis Energy considers would benefit from regulatory attention are:

- examining the case for extending or adapting regulatory arrangements to cover LPG. It is likely that the policy rationale supporting many of the interventions in the natural gas market naturally carry across to the LPG market. As a multi-fuel retailer, Genesis Energy expects there would be value in harmonising arrangements across consumer fuel types and consolidating operations under a single regulator;
- reviewing the overall regulatory framework for essential facilities infrastructure. Investors and access-seekers could benefit from clear, coherent and stable principles to guide regulatory intervention in areas such as gas transmission, gas storage and private networks. Clear *ex ante* principles on open access and cross-involvement would provide greater regulatory certainty to infrastructure investors and could help ensure that efficient, non-discriminatory access regimes are in place to support vibrant, competitive gas and LPG markets;
- expediting work on a “D+1” allocation regime for gas balancing. This should be relatively straightforward to implement and would be more effective at improving the efficiency of balancing arrangements than many of the matters dealt with by the proposed balancing rules.

Consistent with the third point above, Genesis Energy would prefer to see the D+1 work prioritised ahead of the balancing plan process covered by the balancing rules. There is considerable scope for the matters dealt with by the balancing rules to be resolved via industry-led work, with more targeted regulatory intervention reserved to resolve a narrower set of outstanding matters.

With respect to the first and second points above, it may be preferable for the Gas Industry Company to contribute to this work rather than to lead these projects. Both projects would involve some work at a strategic level, and both could lead to recommendations for legislative amendment. Work on essential facilities would also benefit from close involvement of the Commerce Commission.

If you would like to discuss any of these matters further, please contact me on 04 495 3348.

Yours sincerely

A handwritten signature in black ink that reads "R Parry". The signature is stylized with a large, looped 'R' and a cursive 'Parry'.

Ross Parry

Regulatory Affairs Manager

Appendix A: Responses to Consultation Questions

QUESTION	COMMENT
<p>Q1: Do you consider there to be any other items that should be included in the Company's intended work programme for FY2011?</p>	<p>Yes.</p> <p>Genesis Energy suggests new work on LPG and essential facilities and a higher priority for work on a D+1 allocation regime for gas balancing.</p> <p>Refer to the cover letter for more detail.</p>
<p>Q2: Do you consider there to be any items that should be excluded from the Company's intended work programme for FY2011?</p>	<p>No.</p>
<p>Q3: Do you have any questions on the calculation of the levy funding requirement for FY2011?</p>	<p>No.</p>
<p>Q4: Do you have any comment on the proposed levy for FY2011?</p>	<p>Genesis Energy is generally comfortable with the proposed levy and recognises that much of the increase reflects the volatility that comes with a policy of rapidly returning over-recoveries rather than using them to smooth levies from year to year.</p>
<p>Q5: Do you have any comment on the regulatory amendments described in section 8?</p>	<p>Genesis Energy agrees that levies should be payable only once in respect of any gas purchased and transmitted to end users, that levies should be payable for any sale of remaining recoverable reserves in Tariki/Ahuroa and that there is a case for extending the compliance regulations to cover the information gathering powers under the levy regulations.</p>

QUESTION	COMMENT
<p>Q6: Do you consider that the GIC should alter its current method of defining direct costs and allocate more of its indirect costs to work streams?</p>	<p>No.</p> <p>Genesis Energy considers that the current arrangements are more transparent.</p>
<p>Q7: Do you support the inclusion of a portion of Gas Industry Co's indirect costs in market fees for FY2012, as opposed to their inclusion in the FY2011 levy?</p>	<p>No.</p> <p>The levy provides a more robust, defensible and transparent mechanism for recovering the Gas Industry Company's costs.</p>
<p>Q8: Do you agree that Gas Industry Co should recover its costs associated with MPOC/VTC outside the levy regulators?</p>	<p>No.</p> <p>Gas transmission code changes provide efficiency improvements that benefit all gas (and electricity) consumers, so levy funding is likely to be the most appropriate and efficient approach.</p>
<p>Q9: If you agree with Q8, do you agree that Gas Industry Co should recover its costs associated with MPOC/VTC rule changes from applicants or MDL and Vector?</p>	<p>If the Gas Industry Company were to recover its costs outside the levy, then it would be preferable not to fully charge costs to applicants because this could deter code changes.</p>
<p>Q10: Do you agree that Gas Industry Co should seek to recover its full internal costs associated with the compliance regime through orders for costs in relation to hearings?</p>	<p>No.</p> <p>As with transmission code changes, there is a public good element to the compliance regime. Genesis Energy also agrees that the administrative complexity associated with full allocation of internal costs would be likely to outweigh any other benefits.</p>