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Dear Peter

Proposed Gas (Levy of Participants) Regulations 2010

Thank you for the opportunity to respond to the consultation paper "Proposed Gas (Levy of Participants) Regulations 2010. No part of the submission is confidential and Mighty River Power is happy for it to be publicly released.

Levy

Mighty River Power is concerned that given the objective of the GPS to put downward pressure on gas prices a 28% increase in the Levies plus market fees does not help. As discussed in our submission last year¹ we caution the GIC that it needs to ensure the levies are justified in terms of the value they provide to end users, who will ultimately incur these costs.

We question the 28% increase, the paper whilst discussing budget requirements, other costs and associated calculations, does not give reasoning for this increase. As this is a substantial increase compared with the previous five years we would like more clarity as to how this has been arrived at.

Market Fees

With regards to 'Market Fees' we believe that these should be rolled up into the Levy as it would make the total cost of the GIC's operations clearly visible.

Proposed work streams

With regards to the proposed work streams for the forthcoming year a major issue for us is the intention of the GIC to implement the proposed regulator option for Pipeline Balancing.

We are concerned that the GIC continues to view Pipeline Balancing issues purely from an upstream perspective. The GIC has as part of its Pipeline Balancing consultation papers consistently stated that a fundamental part of any efficient balancing regime is the availability of information to allow shippers to manage their risks. We note that despite this the GIC has only scheduled a consultation paper on a Daily Allocation Process for March 2011 at least 6 months after it proposes to implement its new balancing rules.

In our opinion the implementation of the proposed Gas Governance (Balancing) Rules without a daily allocation process for downstream gas will increase retailers operating costs and will create a clear upwards pressure on gas prices. In addition it is our opinion that without a daily allocation process a retailer's risks associated with pipeline balancing will become unacceptable and will create a significant barrier to entry into the gas retailing market.

As an alternative to the GIC proceeding with its Pipeline Balancing proposals Mighty River Power proposes that the GIC suspend their work on this part of the Pipeline Balancing workstream and immediately commence work on producing a daily allocation process for customers in the downstream market. Once such an allocation process is in place the GIC can review the need for the Gas Governance (Balancing) Rules as it is our view that this process will significantly reduce the number of balancing actions required on the pipelines.

The proposed review of both Transmission Capacity and Distribution Network contracts are overdue. However, as per our submission last year Mighty River Power believes that this should be dealt with by the MED/Commerce Commission.

Funding of MPOC/VTC

With regards to a couple of specific questions raised by the paper we believe that the funding of any MPOC/VTC change requests should remain status quo. Currently the majority of the change requests are from MDL and Vector therefore if they were charged by the GIC then these costs would be added to MDL and Vector's tariffs, so we pay anyway. If in the future this situation changes significantly then it can always be reviewed again at a later date.

Recovery of costs for hearings

We would like to comment on the recovery of the GIC internal costs associated with the Rulings Panel, in that we agree in principal that this should be a target but accept that at the moment it is difficult to quantify what these costs actually are. We believe that this issue should be reviewed annually and at some point in the future these costs should be recovered even if these are based on a pre-set table of fees.

Regulation amendments

With regards to the application of the Levy on gas that is held in the gas storage facility, our preference would be to pay the wholesale levy on gas as it exits in the storage facility. We believe the simplest way of applying the wholesale levy would be to apply it when the gas is purchased from the gas field/wholesaler. That does mean that we would pre-pay the wholesale levy on gas prior to it being used and assumes that all the gas that is injected into the field is recoverable. Consideration must be given to ensure that parties do not pay the Levy twice for the same gas nor should we pay the Levy on gas that we cannot get the use of.

If you have any queries regarding this submission please do not hesitate to contact either Jim Raybould, 06 348 7926 or Jim.Raybould@mightyriver.co.nz or myself, 09 580 3658 or Chrissy.Burrows@mightyriver.co.nz.

Yours sincerely

A handwritten signature in black ink, appearing to be 'CB', with a horizontal line extending to the right.

Chrissy Burrows

Regulatory and Stakeholder Manager

ⁱ Mighty River Powers submission dated 9 February 2009, Submission on Levy for Gas Industry Co for the 2008/2009 Financial Year.