

Submission prepared by: Charles Teichert, Nova Gas Limited

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>No.</p> <p>Important issues that the industry should prioritise include:</p> <p>Pipeline infrastructure:</p> <ul style="list-style-type: none">- Industry facilitation. This includes facilitating changes to the MPOC and VTC for pipeline balancing related amendments;- Capacity. Issues associated with emerging constraints on Vectors northern pipeline; <p>Market Operations:</p> <ul style="list-style-type: none">- Amendments to registry and reconciliation rules; <p>Compliance</p> <ul style="list-style-type: none">- Nova believes that there needs to be changes to the compliance regime to streamline and reduce not only the direct costs of the compliance regime but also the indirect and hidden costs.- We note on page 15 of the consultation paper that in the last 12 months "almost 5,000 breaches have been alleged" and that only 390 had progressed to the investigation phase.- There is a significant cost burden associated with the reporting by the Market Administrator of potential breaches, initial investigation by participants and the determination of materiality. Given that the vast majority of breach allegations are determined to be immaterial or are not actually breaches, and only 8% are actually investigated indicates significant inefficiencies in the compliance process.

Q2: Do you consider there to be any items that should be excluded from the Company's intended work programme for FY2011?

In the GIC work programme there are a number of areas of planned expenditure that are unnecessary.

Nova believes that:

- 1) the work programme represents a "tick the box" approach to the objectives identified in the Government Policy Statement.
- 2) There has been no analysis performed justifying the need to perform work in certain areas.

Specific areas of the work programme that we believe are unnecessary and should be either reduced in scope, deferred or abandoned include:

Pipeline Infrastructure:

- Pipeline balancing regulations.

Given satisfactory development of contractual arrangements, further development/implementation of balancing regulations appears premature at this time.

Investigations into D+1 Allocation feasibility should continue.

- Upstream Reconciliation.

This appears unnecessary given that there are no issues associated with upstream reconciliation.

Market Operations:

- wholesale market + associated rule changes

Nova does not believe that the day ahead wholesale market being developed will attract sufficient trades to justify its implementation and operation. Market participants have long term supply arrangements that provide sufficient capacity on a day to day basis.

We understand that the main objective for the development of a market is to make available in a public way information regarding wholesale gas prices. We believe that there are better ways of meeting this objective such as requiring publication of retail sales to industrial (>10TJ/annum) sites on an anonymous basis. The Electricity Commission has developed such a regime for very much the same reasons contracts. Refer <http://www.electricitycontract.co.nz/>

- consumer issues

Nova believes that the GIC has failed to justify the necessity for developing any sort of regime around minimum terms and conditions for small consumer contracts. Such activity is misplaced and ultimately will not be of any benefit to consumers and will only hamper competition and innovation.

<p>Q2: continued</p>	<p>Office of the Chief Executive:</p> <p>The Chief Executives budget appears to be inflated with unallocated buckets of funds for non specific activity including \$250K for “strategic Advice”.</p> <p>Corporate Services:</p> <p>The Corporate Services budge also appears to be inflated with unnecessary funding for non specific activity such as “legal contingencies”. We also understand that the GIC has a Human Resources anager which for an entity with a low number of staff seems unwarranted.</p> <p>Nova does not support the retention by the GIC of significant funds for non specific or contingency purposes. Instead the GIC should be planning and managing its work programme and affairs in a more disciplined manner.</p> <p>We also note the high levels of remuneration paid to key GIC staff and the Chief Executive in particular when compared to similar roles in other Government entities. We do not begrudge rewards for good performance and value creation but we believe that such rewards must be justified on performance and delivery of value.</p> <p>Nova questions the need to retain a Chief Executive for what is in principle a managerial role given the specialised industry programme work is performed by principal advisory roles.</p> <p>Perhaps a corporate structure more along the lines of the Electricity Commission would be more appropriate now that the GIC has been established and reached a mature stage of its development.</p>
<p>Q3: Do you have any questions on the calculation of the levy funding requirement for FY2011??</p>	<p>What was the GIC thinking when they developed a proposal to increase levies by 28%?</p>

<p>Q4: Do you have any comment on the proposed levy for FY2011?</p>	<p>The proposal to increase levies to the extent proposed with little or no corresponding benefits is astonishing in its lack of consideration for those that will ultimately bear the cost – consumers.</p> <p>Factors that demand the utmost care in the levy, associated work program and corporate structure decisions include:</p> <ul style="list-style-type: none"> - weak global economic conditions; - New Zealand facing a significant balance of payments deficit for the foreseeable future; - Consumers facing increases in a broad range of taxes such as ACC levies, interest rates, prices for goods and services together with reduced Government services and the increased likelihood of unemployment; <p>Fiscal restraint and improvements in productivity are now more important than ever and the GIC must learn to “cut its cloth to the material available”</p>
<p>Q5: Do you have any comment on regulatory amendments describe in section 8?</p>	<p>Not at this time, although we reserve our right to make comment when rules or regulation changes are proposed.</p>
<p>Q6: Do you consider that GIC should alter its current method of defining direct costs and allocate more of its indirect costs to work streams?</p>	<p>The issue of allocation of indirect costs is largely an issue of semantics and allocation of costs between smaller mainly residential customers (ICP retail levy) and large gas consumers (Per GJ wholesale levy).</p> <p>Nova’s is concerned that the indirect costs of the GIC are a significant proportion of the total levy and as reflected in our early comments, actions need to be taken to reduce those fixed indirect costs and ensure that its levies are spent on productive activity.</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>Again the issue of how the costs of the GIC are recovered through levies or market fees is superficial as the costs are recovered through either market fees or levies.</p> <p>We note that in the electricity industry, there are no separate market fees and service provider costs are recovered through levies.</p>

<p>Q8: Do you agree that Gas Industry Co should recover its costs associated with MPOC/VTC outside the levy regulations?</p>	<p>If the GIC is to remain as the party that casts as a change agent for the MPOC and VTC then it is appropriate that such costs are recovered through levies as it is highly likely that parties other than those submitting the rule change request benefit from the VTC/MPOC change processes. Loading the costs of rule changes onto the party requesting the change is likely to only reduce the already muted incentives for parties to lodge rule change requests.</p> <p>We think a more important question for industry participants to consider is the appropriateness of the GIC as being the party that performs the role that it currently does in relation to the MPOC and VTC.</p> <p>Our main concern is that in certain situations, the GIC may have a conflict of interest in its role under the VTC and MPOC. Specifically, this conflict of interest arises when the GIC is promoting its own regulatory solution to an issue when also one or more industry participants may also be promoting a contractual solution that the GIC sits in judgement on. A current example of this is with the two proposed solutions to deal with pipeline balancing.</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>N/a we believe the status quo is appropriate.</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?

No.

Having an effective (as well as efficient) compliance process creates benefits for all participants in addition to a party that may suffer loss or injury due to breach by another participant. An effective compliance regime means that participants can conduct their business with the confidence that those they trade with or compete against abide by the regulations set down. Without an effective compliance process, parties may be incentivised to engage in dubious activities that harm trading activities and potentially competition.

On that basis, the compliance regime has benefits for all participants and it seems right that they should contribute to the indirect costs of that regime.

The New Zealand judicial system works in this way with the costs of the Ministry of justice and much of the Court system being paid for from the consolidated tax fund.

Please note our previous comments that the current compliance regime may not be as effective and efficient as it could be and that it should be possible to make some changes that reduce unnecessary costs burdens. Reducing such waste will also have the benefit of unclogging the compliance process and getting more effective consideration of real issue in a timely manner.