



3 May 2005

The Secretariat
Gas Industry Company Limited
PO Box 10 646
Wellington

Attention: Richard Longman

Dear Richard:

Thank you for the opportunity to comment on the follow up consultation paper on the GIC levy proposal for 2005/06, dated 22 April 2005.

Wholesale Levy

Contact Energy supports the proposal to levy buyers at the first point of sale from the gas producer.

Retail Levy

While Contact earlier submitted that the Retail levy should be \$/ICP based, we recognise that there is a reasonable argument for the Retail levy to have a mix of \$/ICP and \$/GJ components, and that if that is the case a 50%/50% mix is a reasonable split.

However, Contact does not support the levy only applying in respect of "small" consumer ICPs and associated GJ sales - i.e. with a 10 TJ threshold.

The GIC Retail activities are proposed to cover regulations, rules and protocols related to:

- Customer Switching processes
- ICP Registry - to support customer switching, network billing, retail pricing & billing, allocation & reconciliation
- Allocation and reconciliation - to support open access trading
- Information exchange protocols - to enable efficient and consistent information exchange processes between Network Operators, Retailers and GMS Owners. E.g. data from Retailers to Network Operators to support network billing, billing detail files from Network Operators to Retailers to support summary bills and to enable reconciliation of invoices, status change processes.
- Model Retail Contracts

Contact considers only the last activity, Model Retail Contracts, is primarily a benefit to small consumers only.

All other activities benefit all end consumers and therefore we submit that the levy should apply in respect of all ICPs.. The only exceptions, as we noted before, should be for those very large gas consumers who have no need for "retail" allocation and reconciliation processes or switching arrangements. As we submitted previously, we do not believe that a

threshold of 10 TJ is a good way to identify these very large consumers; it is too low and will exempt consumers who will clearly benefit from the retail arrangements. In our previous submission, we suggested some alternate criteria that could be used to identify the large “non-retail” consumers. If the proposed threshold structure is to be retained, we submit that it should be set at 1 PJ. This much higher threshold will identify those truly large consumers that are appropriate to exempt from the retail levy.

While Contact continues to disagree with using a 10 TJ threshold as a means to distinguish the consumers (ICPs) for whom the retail levy should apply, we recognise that the benefits of retail arrangements do not continue to increase in proportion to sales volumes. We therefore recommend that the variable component be capped at the 10 TJ amount, so that all consumers above 10 TJ face the same levy. This would also have the benefit of removing the threshold issues around 10 TJ.

The levy proposal notes that, should the 10 TJ threshold remain, there is no reason for retailers to pass on the levy to only end consumers using less than 10 TJ. We disagree, as in a competitive market there is a strong driver to reflect costs as closely as possible in prices to consumers.

Notification

One final issue we would like to raise regards the amount of advance notification that the GIC will provide in advance of commencing the levy charges. Contact submits that there should be a minimum of 60 days between the notification of the levy charge and its implementation. This time frame will allow retailers to adjust their prices accordingly.

If you have questions or would like further information about the points raised in this letter, please do not hesitate to contact me.

Yours sincerely,



Pamela Caird
Regulatory Analyst