

Definition of Gas Services

1. By undated letter the Minister of Energy requests the Commission report to him by no later than 1 November 2004 on whether or not an order in Council under section 53 of the [Commerce Act 1986] should be made in relation to the goods and services connected with either gas transmission or gas distribution or both ("gas services").
2. In response to the Commerce Commission's letter of 20 June 2003 seeking clarification about the scope of the inquiry the Minister of Energy responded as follows:

"In summary, I agree with the interpretations you have put forward in relation to "gas services", "gas", "connected with", "gas transmission or gas distribution", and "pipelines owned by Maui Development Limited". To clarify, I agree with the following interpretations that you have suggested:

 - *The references to "gas pipeline services" and "pipeline services" to mean "gas services" as explicitly defined.*
 - *"Gas" to mean natural gas, and only that gas. Liquefied petroleum gas (LPG) was not intended to be covered by the inquiry*
 - *"Connected with" to mean "supplied by persons in markets directly related to". Goods or services physically connected with gas transmission and distribution pipelines that may include goods and services not owned or operated by owners of gas pipelines were not intended to be covered by the inquiry.*
 - *"Gas transmission or gas distribution" to mean "a gas transmission system or a gas distribution system" where "transmission system" and "distribution system" are defined in the Gas (Information Disclosure) Regulations 1997 and the Gas Act 1992 respectively. Small-scale pipelines such as those in commercial buildings were not intended to be covered by the inquiry.*
 - *"Pipelines owned by Maui Development Limited" to mean only those pipelines owned by Maui Development Limited (MDL) that form a gas transmission or distribution system (or part thereof). Other pipelines owned by MDL that are not part of a transmission system or distribution system were not intended to be covered by the inquiry.*

The terms of reference for the inquiry consist of my original letter of request dated 30 April 2003, the Commerce Commission's letter seeking clarification dated 20 June 2003 and this letter."
3. In paragraph 4.11 of its paper "Gas Control Inquiry, Draft Framework Paper, 16 July 2003" the commission says:

"The Commission is aware that gas services as defined in the terms of reference will consist of a number of services."
4. The Commission asks the question:

"What services are included in "gas services?"
5. Contact's 5th slide, provided as part of its Oral Submission, and its 3rd slide, provided as part of its Supplementary Submission, was Contact's response to that question. Contact listed the services it believes fall within the definition of "gas services" as set out in the correspondence between the Commission and the Minister of Energy.
6. The list of services provided by Contact is not necessarily exhaustive but Contact believes it largely covers the services provided by owners of transmission and distribution systems in New Zealand.
7. Some of these services are necessary for the proper transport of gas such as the following:

- Metering;
- Allocation and reconciliation;
- Gas quality monitoring.

Some of the services are not necessary for the proper transport of gas but are, nevertheless, necessary for industry efficiency:

- Gas blending;
- Gas storage;
- Odourisation (although a legislated requirement except for some gas used in identified end uses).

8. All of the services are provided by owners of gas pipelines although not every individual pipeline owner provides all these services. For example, NGC provides metering, allocation and reconciliation services on its transmission pipelines whereas on some distribution pipelines these services are provided by third parties.
9. Contact is particularly concerned about access to gas storage in the future. This is likely to become increasingly important with the loss of flexibility provided by Maui.
10. Contact believes that unless the Commission comprehensively covers the services necessary to transport gas and services associated with the transport of gas then there is risk that the Commission's report to the Minister of Energy resulting from the inquiry may be flawed.

Information on whether any elasticity studies have been undertaken in New Zealand

1. We are not aware of any studies on elasticity undertaken in New Zealand.
2. However, Contact has found it hard to sell new gas installations on the basis of economics and in our experience very few people disconnect themselves from gas for reasons of price. We conclude that gas demand is quite inelastic.

Clarify whether there are higher margins per customer for the gas retailing or electricity retailing business

1. In our view margins per customer for gas retailing are generally worse because rising wholesale gas costs and gas transportation costs feed more quickly into gas cost structures than into the cost structures of the electricity sector (due to the lag in the wholesale electricity market).
2. In the gas market Contact's retail margin is constantly squeezed as costs are imposed from other parts of the value chain. This is particularly so with recent price increases from networks, transmission and the continued upward climb in wholesale gas price. There is also a lot of "cherry picking" going on in gas, particularly in the Auckland market, which is putting further pressure on margins. Barriers to entry are probably lower in the gas market than compared to the electricity market because the gas market is currently relatively simple compared to the more complex electricity market.