



20/8

13 August 2004

Commissioner D Bates QC  
Gas Pipelines Inquiry  
Commerce Commission  
P O Box 2351  
WELLINGTON

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Dear Commissioner Bates

**CROSS-SUBMISSION RELATING TO THE GAS CONTROL INQUIRY DRAFT REPORT OF 21 MAY 2004**

Thank you for the opportunity to provide a cross submission in response to the Gas Control Inquiry Draft Report – Public Version and oral submissions presentations during the recent conference in Wellington, relating to the current Gas Pipeline Inquiry.

Wanganui Gas Limited (WGL) acknowledges the significant consideration and analysis provided by the Commerce Commission (Commission) through a suite of released documents available from the Commission's website and as separately provided to WGL. WGL also recognises the raft of expert opinion provided by a number of industry participants and the Commission's advisors

As evidenced by its attendance at the four days of the July conference WGL remains fully committed to understanding the matters before the Commission and actively participating in the formation of views that in turn mould the resulting conclusions.

WGL wishes to emphasise that this cross submission provides the views and opinions of its network division, *GasNet*. The submission is supported and provided with the full knowledge of the Company; however the submission is independent to any submission from the retail arm of WGL. As such, any point or position taken within this submission, that is supportive of a similar point or position made by the retail arm of WGL is a point or position that a third party could take or purely co-incidental.

WGL does not consider this cross submission to contain any confidential information. Should the Commission view this matter differently, WGL requests the opportunity to consider the Commission's position prior to public release of any information.

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## 1.0 Points of Clarification or Correction

The following points relate to matters WGL has noted in other Inquiry participants submissions which the Company felt needed to be clarified or corrected to ensure that the Commission has accurate information.

### 1.1 Gas Access Code

At page 26, paragraph 86 of NGC Holdings Limited's (NGC) written submission in respect of the Commission's Draft Report - public version, NGC state "NGC understands that Wanganui Gas is also a signatory to the Gas Access Code ...". To assist the Commission, WGL advises that it is in fact a founding signatory of this Code.

### 1.2 Open Access to GMS

Also in regard to page 26, at paragraph 86 of the NGC's written submission in respect of the Commission's Draft Report - public version, NGC further state that "... Wanganui Gas ... provides open access to its consumer gas meters."

WGL is unclear whether NGC was referring to "open access" by those gas retailers that have a Distribution Service Agreement (DSA) with WGL to contract use of GMS owned by WGL and operated by *GasNet*; or "open access" for a party to connect its or another's GMS to a network owned by WGL.

Again to assist the Commission, WGL provides the following comment in respect to each possibility as follows:

1.2.1 "open access" by gas retailers: WGL can confirm that any retailer having a DSA in place is able to contract GMS services from *GasNet* at published prices for standard installations and as agreed between the parties for non-standard (and likely very large) GMS installations.

1.2.2 "open access" for a party to connect its or another's GMS to a network owned by WGL: WGL to date has not had to face this particular situation, but does find itself in the reverse situation in that it provides such "off-network" GMS services for certain retailers.

WGL accepts the right of a party having a DSA with *GasNet* to consider GMS service provision alternatives and that if it can not meet the market price and the party can assure *GasNet* that it can comply with network/GMS NZ Standards and Regulations including safety requirements, then substitution would be the likely outcome. While the current DSA does indicate that *GasNet* will provide GMS services for all connections this provision remains only until a replacement DSA document is finalised and can be handled as an agreed standard variation. Such standard variations normally are the result of consultation with all affected parties.

## 2.0 Consideration of Dynamic Efficiency

WGL has reviewed the Draft Report generally and specifically at Chapter 5, pages 5.17-.22 to understand why it had not identified the Commission's dynamic inefficiency disbenefit assumption modelled as an indirect cost of control as a 5% reduction in total quantity available to the market - the missing market. The conclusion reached is that it cannot find any specific reference to this assumption in this text - a useful comparison is the included treatment of quality through movement to interruptible contracts etc. at page 5.19. The only specific statement that WGL found was at Appendix A at the second page, item "Indirect Costs (IC)".

Having now found the assumption, reflected on it, the conference transcript of 27 July 2004 at pages 147-8, and considered the text of its presentation slide 19, WGL now recognises that the last point on the slide should perhaps have states "Need for [a better] explicit cost allowance". On this basis WGL both acknowledges that an assumption existed and apologises for the assertion that there was none.

WGL would now like to consider both the Commission's modelling assumption in regard to dynamic inefficiency impact of control as a disbenefit and also consider the assumptions around loss of quality.

### 2.1 Indirect Cost of Control - Dynamic Inefficiency

WGL considers the assumption of a fixed 5% reduction in available quantity of supply to essentially treat this cost of control as if a theoretical pipe can be reduced by 5% and the balance of supply (the 95%) remain unaffected. The investment involved is not generically growing the whole network capacity but rather discrete segments such as new sub-divisions. Regarding generic growth, it would be very rare to be considering, for example, a main route looping project to increase capacity as historically the investment cost is such that we operate within the capacity available or commit to a project based on load projections or contracts. For distribution networks this is likely to be the former.

Thus in reality the 5% reduction in capacity is 100% of whatever investment is avoided, delayed or cancelled. Further the cost of ex-post installing a network into an area in which the energy needs are completely satisfied by a range of energy form substitutes to gas is essentially prohibitive. This is because the likelihood of achieving economically viable penetration levels, if ever possible, may take 30 to 40 years given appliance replacement cycles, user preferences, capital cost factors, availability and quality of installation service etc.

In addition as any reasonably designed gas network will be able to supply much higher penetration levels than observed currently, there would be little incentive to continue to roll out network where there is direct competition for the same dollars to increase existing network penetration level (in-fill). Some new investments may occur but these may be realised on the basis that another

part of the network is closed as it is not viable for economic renewal and as gas is not an essential service, service can and will be discontinued.

If the Commission decides to retain a small percentage capacity reduction assumption, WGL does favour the argument put forward by Charles River Associates on behalf of NGC that the reoccurring loss aspect be modelled by the compounding growth of this factor.

## 2.2 Loss of Quality - Interruptibility and Reduced Revenue

WGL questions whether purchase of interruptible supply contracts at distribution level in lieu of the avoided, delayed or cancelled investment is a realistic assumption. Even if the answer remains that it is realistic, then the modest price discount assumed would appear inconsistent with the likely value of gas to the consumer of such a service.

In addition, as distribution networks tend to be highly meshed infrastructures (at least for mature well-penetrated networks), the ability of the network to interrupt one or a few end-users with “ease” would generally require some re-design and re-engineering of the interface point with that end-user with commensurate investment in sophisticated monitoring and control equipment dedicated on each site. As it would be likely that a network would need to increase its investment to enable it to be in a position to manage interruptible loads at reduced levels of revenue the economic rationale appears thin.

In addition, interruptability of load is normally triggered through a constraint being reached such as throughput level or possibly mains pressure reduction. These types of constraint are purposely engineered out of distribution systems as the impact of such constraints is to potentially lose supply to many end-users simultaneously which causes emergency response measures to be invoked at great cost and stress to all affected.

If there is a need to provide further clarification or any general queries please contact Mr Geoff Evans, Network Manager - *GasNet*, the independent trading division of WGL on 06 349 0131 or by email at [Geoff.Evans@gasnet.co.nz](mailto:Geoff.Evans@gasnet.co.nz).

Yours sincerely



Trevor J Goodwin  
**Chief Executive**