



20/8

2 July 2004

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

Email: gaspipelinesinquiry@comcom.govt.nz

Dear Commissioner Bates

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

Wanganui Gas Ltd's Energy Division (WGL-Energy) would like to thank the Commerce Commission for this opportunity to comment on the Commission's "Gas Control Inquiry - Draft Report (Draft Report)". This submission, which is separate to WGL's Network Division submission, is in two parts –

- The first to comment on some incorrect information regarding WGL-Energy in the Draft Report
- The second to make comment on the findings of the Draft Report.

1.0 Correction of Information

Clause 9.9

WGL-Energy retails gas as Direct Energy New Zealand throughout the North Island of New Zealand, including customers in Whangarei, Gisborne and the Hawke's Bay as well as those areas mentioned in the Draft Report. We also retail gas locally in Wanganui, South Taranaki and the Rangitikei under our Wanganui Gas brand.

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Clause 13.1

In this clause the Commission states that WGL-Energy retails gas in Auckland through Mighty River Power's retail arm Mercury Energy. Our relationship with Mercury Energy would more accurately be described as that of wholesaler rather than retailer as we have no direct relationship with Mercury Energy's customers.

Mercury Energy acquires the gas consumer as their customer and then has the ongoing relationship with that customer. This relationship includes reading the gas meter and billing the customer for the gas that they have used. WGL-Energy charges Mercury Energy the bundled cost of gas delivered to their customer. This includes the cost of gas, transmission, distribution, metering, reconciliation and allocation services. Mercury Energy pays WGL-Energy the total cost of the gas delivered to all of their customers in one lump sum on a monthly basis. Mercury Energy then bills their customers at the rate agreed between them.

Although WGL-Energy does retail gas to a number of business customers in the Auckland area through our Direct Energy New Zealand brand it is a completely separate arrangement to the Mercury Energy relationship. WGL-Energy does not directly retail gas to residential customers in Auckland.

2.0 Comment on Findings in Draft Report

WGL-Energy welcomed the Commission's inquiry into Gas Network's economic and operations behaviour. We are however disappointed that the Commission appears to have limited the inquiry to the economic aspects of gas network operations.

It is our opinion that the operational behaviour of some gas network companies imposes as many unnecessary costs on gas retailers through their operational behaviour as they do through their direct charges for the conveyance of gas through their networks. These additional costs are in turn recovered from our customers resulting in an adverse impact on the competitiveness of gas against alternative fuels.

We are particularly concerned about such practices in areas where the network operator is also the local electricity network operator.

Examples of the type of behaviour that we find difficult to accept include: -

- Unnecessarily stringent application of prudential requirements.
- Billing for network services in advance.
- Zone pricing with no apparent overall reduction in the network's revenue.

2.1 Application of Prudential Requirements

WGL-Energy accepts that network companies have to manage the risk that they face in providing their services. However as a comparatively small company it is unrealistic to expect that WGL would go to the expense of

obtaining and maintaining an independent assessment such a Standard and Poors rating.

The net result is that despite paying the network's accounts on time over a number of years one network insists that we maintain a bank guarantee or a place a bond with them. This imposes extra costs which could be avoided with a more reasonable approach.

2.2 Billing for network services in advance

Two network companies insist on billing for their distribution services in advance rather than following the more accepted practice of billing in arrears. In such cases WGL-Energy is required to pay an estimated account in advance. The account is then supposed to be "washed up" in the following month with any subsequent invoice or credit note due for settlement in that month.

In practice however the network company can take as long as 15 months to wash up their accounts. For example WGL-Energy recently received an invoice from one network company based on a wash-up from July of last year. The amount of this invoice represented approximately 40% of our average monthly account with that company.

We are also holding in an accrual account approximately \$125,000 for another network company while they try to resolve the administration of their advance billings.

In addition despite our timely provision of data to these companies we are charged interest on outstanding accounts. For example we had provided all of the necessary data for a July 2003 account by the end of August 2003. The wash up account was issued at the end of April 2004 and included a considerable sum for interest charges covering the period July 2003 to April 2004.

The above practices are in our opinion economically and administratively inefficient for both the network operator and retailers alike. WGL-Energy spends a significant number of hours each month reconciling the accounts that we receive from the network operators that apply this process.

Our experience is that we have considerably lower administration costs associated with monthly network invoices from those network companies who bill one month in arrears. In addition WGL-Energy believes that the network companies that bill in advance incur significantly higher administration costs resulting in an increase to their network charges.

2.3 Zone pricing

In clause 3.61 of the Draft Report the Commission notes Contact Energy's comments regarding zone pricing. However the Draft Report does not comment on that aspect of network behaviour when commenting on the individual companies.

WGL-Energy is disappointed that the Commission has not made reference to any enquiries into the practice of zone pricing and the impact on the prices of other consumers where zone pricing has been introduced.

WGL-Energy would be happy to discuss these matters with the Commission in greater detail and would urge the Commission to extend the current review of Gas Networks to include the operational behaviour of gas network companies where it results in cost increases to the acquirers.

Yours sincerely

A handwritten signature in black ink, appearing to read 'T. Goodwin', with a stylized flourish at the end.

Trevor Goodwin
Chief Executive