

NOVA GAS LTD

Todd Building

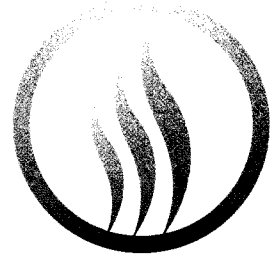
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19 August 2003

Mr D Steele
Gas Inquiry Team
Commerce Commission
PO Box 2351
Wellington

Dear Sir

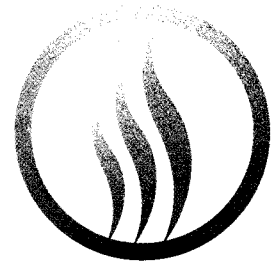
Gas Pipelines Inquiry Conference

We refer to the Commission's draft framework paper published on 16 July 2003 and enclose a submission on that paper.

We do not wish to present at the conference commencing on 1 September 2003.

Yours sincerely

Graeme Clearwater
Business Unit Manager



SUBMISSION BY NOVA GAS LIMITED
COMMERCE COMMISSION GAS CONTROL INQUIRY
DRAFT FRAMEWORK PAPER

1. Summary

- 1.1 Nova Gas Limited (**Nova**) makes the following submissions, following the same order of matters as contained in the Commission's draft framework paper.
- 1.2 In accordance with the staged process adopted by the Commission, these submissions are directed only at the Commission's proposed framework for investigating the performance of the relevant sectors. It does not address application of the framework or contain any submission on outcomes.
- 1.3 In that regard, Nova observes that the Commission's draft framework paper goes well beyond the scope of a framework paper. At this point, Nova has considered the paper solely from the perspective of the overall framework the Commission proposes to follow. Nova proposes to engage fully on the substantive issues raised by the paper once the Commission releases its draft report.

2. Background

- 2.1 Nova does not wish to make any submission on matters of background.

3. Legal framework

- 3.1 Nova considers that the Commission is right to have consideration to the legal framework and to an assessment of net benefits that could be achieved within that framework.
- 3.2 In paragraph 1.21 of the draft paper, the Commission identifies the distribution businesses which may be subject to the inquiry. One of those named is Nova. Nova will submit at the substantive hearing that its distribution networks have materially increased competition in the relevant areas.

4. Analytical framework

Competition analysis

- 4.1 Nova considers that the Commission is right to define the relevant markets and assess the factual and the counterfactual within those markets.

- 4.2 At paragraph 1.45 of the draft paper, the Commission states its view that the relevant markets for gas distribution are defined by geographic regions and that the characteristics of gas distribution are similar in each region allowing them, to a large extent, to be dealt with collectively.
- 4.3 Nova does not accept that to be the case. It will submit that:
- the characteristics of gas distribution vary from region to region, in particular with reference to the existence or otherwise of bypass networks (as acknowledged elsewhere in the draft paper); and
 - that the same considerations apply within regions, so that it may, for example, be necessary to define separate markets within regions or even within major cities.
- 4.4 Nova also considers that the Commission is right to rigorously assess the product dimension of the market.
- 4.5 In paragraph 5.60 of its draft paper, the Commission has considered the level of inter-fuel competition and its effects. Nova notes that market events are resulting in increasing interfuel competition.
- 4.6 Nova considers that the Commission is right to consider a range of asset valuation and pricing principles.

G Clearwater
Business Unit Manager
Nova Gas Limited
20 August 2003