



Presentation to Commerce Commission Gas Pipelines Inquiry Conference

2 September 2003

Introduction

- ❖ Historical Milestones
- ❖ Company Structure
- ❖ Our Submission - Key Points

Historical Milestones

- 1879 Wanganui Gas Company formed
- 1902 Company acquired by Borough Council
- 1970 Natural Gas arrived
- 1980 Supply contracts signed
- 1986 Commerce Act passed into law
- 1992 Wanganui Gas Ltd formed - Energy Companies Act
- 1992 WDC sold gas assets to WGL
- 1992 WDC sold 25.1% of its shares in WGL to NGC

Historical Milestones

- 1994 Price control removed
- 1997 New wholesale gas and transport contracts signed
- 1997 Gas (Information Disclosure) Regulations
- 1998 Enforced separation of electricity lines & energy
- 1998 Gas Pipeline Access Code adopted
- 1999 Information Memorandum published
- 2002 WDC shares transferred to Holding Company

Company Structure

Two Trading Divisions:

- ❖ Network Division (*GasNet*)
- ❖ Commercial Division

Supported by:

- ❖ Corporate and Administration Division

Network Division

- ❖ Operates 6 discrete pipeline networks
- ❖ 11,000 connections (4%) - 350 kilometres (2%)
- ❖ Provides gas distribution services to 6 retailers
- ❖ Services available to all retailers
- ❖ Non-discriminatory behaviour
- ❖ Offers posted prices
- ❖ Offers contestable Gas Measurement Systems
- ❖ 12 Direct employees

Commercial Division

- ❖ Energy Trading (Gas & Electricity)
- ❖ North Island wide – 16,000 gas customers
- ❖ Wanganui City – 1,200 electricity customers
- ❖ Sells more gas off-network than on-network
- ❖ Appliance Sales and Installation
- ❖ 12 Direct employees

Corporate and Administration

Provides services to Trading Divisions:

- ❖ Shareholder Relationships
- ❖ Public Relations
- ❖ Financial and Treasury Management
- ❖ Personnel and Administration Support
- ❖ IT and Property Management
- ❖ 6 Employees

Our Submission – Key Points

- ❖ Competitive Markets
- ❖ Gas Pipeline Businesses
- ❖ Is prescriptive control required?
- ❖ Analytical framework
- ❖ The Counterfactual

Competitive Market

- ❖ WGL's distribution prices are constrained by
 1. Energy source substitutability:
 - Electricity and LPG can substitute for gas – the reverse is difficult
 2. Market :
 - Increasing wholesale prices may make gas less competitive
 - Dual fuel retailers can alter their behaviour to promote the fuel that provides the most economic return
 - Retailer pricing strategies – end-user charges
 - Public perception of gas unavailability threatens gas usage
 - Regional economic focus
 - TLA / Developers' lack of awareness
 3. The threat of by-pass:
 - Proactive pricing methodology reflects identified by-pass risk candidates

Gas Pipeline Businesses (GPBs)

- ❖ GPBs are characterised by large long term capital investments
- ❖ Capital is returned over long periods of time
- ❖ The investment risks associated with GPBs are greater than risks associated with ELBs
- ❖ Returns under the regime must be commensurate with these risks
- ❖ Discrete networks defined by geographic location
- ❖ GPBs require certainty and stability from the regulatory regime
- ❖ Investment and innovation could suffer

Is prescriptive control required?

- ❖ It is yet to be demonstrated that the benefits of a prescriptive regime will outweigh the costs
- ❖ Any net benefits of control might not be passed to end users by retailers
- ❖ WGL will bear a disproportionate share of control costs
- ❖ Prescriptive control of WGL is not necessary
- ❖ WGL continues to achieve cost efficiencies which it shares with both retailers and owners

Analytical framework

- ❖ Benchmarking is preferred but recognise there are issues with obtaining comparability
- ❖ The building block approach appears to be complex, intrusive and expensive
- ❖ ODV is the most appropriate methodology to determine asset valuations (in use; understood; robust; transparent; consistent with dynamic efficiency criteria; allows comparability)
- ❖ Allowable return to support superior performance

Counterfactual

- ❖ Not appropriate to assume status quo - existing regime
- ❖ The counterfactual needs to reflect the impact of other proposed changes to:
 - Gas Information Disclosure Regulations
 - Government objectives for the Gas Industry
 - Industry self-governance initiative
- ❖ WGL can not continue to reduce costs at the same rate as it has achieved under the regime