18 October 2016

VECTOR LIMITED
101 CARLTON GORE ROAD
PO BOX 99882
AUCKLAND 1149
NEW ZEALAND
+64 9 978 7788 / VECTOR.CO.NZ

Glenda MacBain
Gas Industry Company
PO Box 10-646
Wellington 6143

Dear Glenda

Submission on the Wholesale Levy Assurance - Options Paper

Introduction

1. This is Vector Limited's (Vector) submission on the Gas Industry Company's (GIC) *Wholesale Levy Assurance - Options Paper* (the Options Paper), issued on 14 September 2016.

2. We set out below our responses to the questions raised in the Options Paper.

3. Vector's contact person for this submission is:

   Luz Rose
   Senior Regulatory Specialist
   Luz.Rose@vector.co.nz
   04 803 9051

4. No part of this submission is confidential and we are happy for it to be made publicly available.

Responses to consultation questions

Q1: Do you agree that the current arrangements do not provide adequate assurance that wholesale levy payers are meeting their respective obligations and that changes need to be made to provide adequate assurance that wholesale levy returns and payments are accurate?

5. Yes.

Q2: Do you consider that there are any other efficient, low-cost options to address the shortcomings of the current methodology in the Levy Regulations? If so, please provide the alternative(s) together with your assessment compared with the four options presented.

6. Yes.

7. We believe Option 1 in the Options Paper, which requires producers to provide the GIC with volumes sold to each of their customers, provides a better alternative solution compared to Options 2, 3 and 4. This is because under Option 1:

- Volume data from producers relates directly to the wholesale process, ensuring data accuracy. This data is already available and is likely to be the lowest-cost data that can be accessed from any industry participants. This data does not have to be collected monthly; quarterly disclosures could be considered.

- Wash-ups are not necessary, making this option simple and low-cost.

- Significant changes to the payments made by wholesale levy payers under current arrangements are unlikely, minimising disruption to existing processes and facilitating a smooth transition to the new arrangements.

Q3: Do you agree with the analysis of each of the four options? If not, please provide your reasons.

8. No.

9. As explained above, we consider Option 1 to be the best alternative option. The GIC's preferred option, Option 3, which uses transmission billing volumes to calculate wholesale levy payments, has the following shortcomings:

- The Transmission Service Provider is not independent, i.e. it buys gas for its own use, raising issues of conflict (or perceived conflict) of interest.

- While the overall wholesale levy amount would not change under this option, the proportion paid by each party to other parties could change significantly.

- This option excludes gas sold and transported on private pipelines.

- It would require wash-ups as transmission billing volumes are impacted by the downstream reconciliation volumes.

- It 'cuts across' existing gas supply agreements. In our experience, most parties provide an energy price inclusive of the wholesale levy when wholesaling gas. Therefore there is a risk of levy costs being double counted, which would require either additional transactions to remove this risk or changes to gas supply agreements. This, in turn, could give rise to unnecessary disputes.

10. We agree with the GIC that Option 2, which requires amending the *Gas Act 1992*, would not be feasible at present. The requirement for an industry participant's determination of volumes to be audited also imposes significant additional costs on the relevant parties.

11. We further agree with the GIC that Option 4, which uses a combination of downstream reconciliation volumes and direct-connect delivery volumes to calculate levy payments, is administratively complex as it requires successive reconciliations and wash-ups. It also

widens the pool of levy payers, bringing new parties to this process and imposing costs on them unnecessarily.

Q4: Do you agree with the analysis that option 3 addresses the problem at low cost and provides an appropriate set of checks and balances?

12. No, for the reasons stated above.

Q5: Do you agree that it would be desirable to amend regulations 18 and 20 of the CCM Regulations to align with any changed levy regulations?

13. As stated in our response to Question 2, we believe Option 1 is the best solution; amending the CCM Regulations is therefore unnecessary.

14. The need to amend the CCM Regulations under Options 3 and 4 reflects the additional amount of work these options require.

Q6: Do you agree that such an amendment to regulations 18 and 20 would be minor and technical, i.e. its effect is minor and it does not adversely affect the interests of any person in a substantial way?

15. Yes, such amendments would be minor and technical. However, as indicated above, we believe that Option 1 is the best alternative - an option that does not require these amendments.

Yours sincerely
For and on behalf of Vector Limited

Luz Rose
Senior Regulatory Specialist