



SUBMISSION BY

GENESIS POWER LIMITED

trading as Genesis Energy

ON

Options for Switching Arrangements for the
New Zealand Gas Industry

4 November 2005

SUBMISSION BY

GENESIS POWER LIMITED
trading as Genesis Energy

ON

Options for Switching Arrangements for the New Zealand Gas Industry

To: Simon Bratt
Gas Industry Co
PO Box 10-646
Wellington

Date: 4 November 2005

E-mail: info@gasindustry.co.nz

Name: Genesis Power Limited

Contact Person: John Carnegie
Regulatory Affairs Manager
Genesis Energy
P O Box 10-568
Wellington

Telephone: 04-495-6357
Mobile: 021-375-061
Fax: 04-495-6363

E-mail: john.carnegie@genesisenergy.co.nz

Introduction

1. Genesis Power Limited trading as Genesis Energy welcomes the opportunity to provide comment to the Gas Industry Co on the recently released consultation paper entitled 'Options for Switching Arrangements for the New Zealand Gas Industry.
2. Genesis Energy is a state-owned enterprise and one of New Zealand's largest energy retailers. As a gas retailer, Genesis Energy has a substantial retail base of approximately 125,000 gas customers located in the North Island.

Executive Summary

3. Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide comments to the Gas Industry Company on the consultation paper entitled 'Options for Switching Arrangements for the New Zealand Gas Industry' dated October 2005.
4. On the basis that current industry arrangements are inefficient, and do not provide full transparency for all affected parties, Genesis Energy supports the work undertaken by the Gas Industry Company, in line with its obligations under the Government Policy Statement, to propose improvements to customer switching arrangements. The current situation is highly undesirable in an industry where the financial transactions total in the hundreds of millions of dollars per annum.
5. Genesis Energy also generally supports the preferred switching solution identified. However, Genesis Energy has made a number of comments with respect to the overall strategic 'fit' of the proposal, the detail of the preferred option, and the process from here.

Genesis Energy's Approach

6. Genesis Energy has identified a range of issues with the consultation paper and has provided a number of suggestions that it believes should be incorporated within the proposal when implemented. While not major, Genesis Energy considers that their adoption will:
 - a. Benefit end consumers;
 - b. Ensure the most cost effective solution; and
 - c. Ease implementation within the industry.
7. These objectives are considered to be consistent with, and supportive of the Government Policy Statement's overarching objective and outcomes and the Gas Industry Company's own "switching objective".

Specific Comments

8. In terms of its specific comments, Genesis Energy has focused on three main areas. These are:
 - a. Strategic direction;
 - b. Technical matters; and
 - c. Process issues

Each of these issues is briefly canvassed below. Genesis Energy's substantive comments on the Gas Industry Company's proposals are attached to this cover note as Appendix One, and are outlined in the form provided.

Consistency with the Gas Industry Company's Overall Strategic Direction

9. Before getting in to the specifics of the options contained in the consultation paper, Genesis Energy wishes to make a number of general observations regarding the consistency (or otherwise) of the proposals contained in the consultation paper with the Gas Industry Company's strategic direction.
10. Whilst Genesis Energy recognises that it is still relatively 'early-days' for the Gas Industry Company and that it is important that the Gas Industry Company 'gets on with the business', it is similarly important that the Gas Industry Company starts as it means to continue. In this regard, it is vital rather than simply stating the various objectives and outcomes that the Gas Industry Company has and is required to achieve, that in its future consultation papers it states a clear view on how the consultation paper per se specifically contributes towards the achievement of the various stated objectives and outcomes sought. For example, while the consultation paper outlines a sub-set of the outcomes sought by the Government Policy Statement (pages 10 and 11), there is no explicit statement that links the paper to the achievement of these outcomes.¹ Similarly, there is no statement that links the paper to the attainment of the Gas Industry Company's:
 - principal objective; and
 - strategic goals and any supporting goals.²
11. In essence it is, in Genesis Energy's view, important that all future papers are placed into a broader strategic context, including a positive statement regarding which stated objectives or outcomes the Gas Industry Company considers it attains.³ While at a work stream level, this is not too dissimilar to what the Gas Industry Company has signalled it will do at an aggregate level in its reports to the Minister of Energy and the industry.

¹ There is, however, a reference for the need to have regard to the Government Policy Statement outcomes, but that is a subtle but important difference to stating how the paper itself contributes towards their attainment.

² As set out on page 11 of the Gas Industry Company Strategic Plan 06/08.

³ The Gas Industry Company may find it a useful analytical tool to develop more specific operational objectives against which to assess specific options (as appears to be the case in this regard – cf. the "switching objective" set out on page 16 of the consultation paper), but at some point there must be an explicit link back to the attainment or otherwise of the published objectives/outcomes.

12. Finally, taking a slightly broader perspective, there is also nothing in the paper that indicates how this particular issue inter-relates (or does not as the case may be) with the work going on in the Gas Industry Company's other working groups/work streams. This is particularly relevant given the strong linkages across industry issues, and the need for the Gas Industry Company to recognise how the overall mix of its work streams fit together, and demonstrate that work streams are not being conducted within 'silos'.
13. While by its very nature a small point, Genesis Energy considers that such an approach will place an important discipline on the Gas Industry Company and avoid the situation that has become evident in other contexts where participants are largely left to guess what the linkages to industry-wide/organisational objectives, Government Policy Statement outcomes and other work stream are. In Genesis Energy's experience, such a requirement makes one actively think about the strategic setting in which the specific work stream is occurring, and its contribution to the strategy, and how the key elements of the overall work programme are expected to be sequenced and fit together.

Technical Comments

14. It is clear that the working group has made significant progress on the overall functionality of the preferred option. However, Genesis Energy would like to see more detail surrounding the following aspects:
 - a. Data Migration and Cleansing Process (in order to avoid the pitfalls experienced by the Electricity Commission Registry);
 - b. Registry and switching rules;
 - c. Governance; and
 - d. Costs to participants.
15. The substance of Genesis Energy's comments on these points is detailed in Appendix One attached.

Process Issues

16. There are three process issues that warrant some discussion. These relate to the nature of the process from this point forward, its substance and its governance.
17. With respect to the first point, it is unclear what the process from this point forward is going to be. This is not set out in the consultation paper, and it would be informative if future consultation papers explicitly set the remaining process for any particular issue out, through to its conclusion. The implicit expectation to be taken from the consultation paper is that once agreement has been gained by the

industry to a specific option (presumably the preferred option), tenders will be sought for its delivery.

18. However, this leads us to the second issue of the substance of the remaining process. If this expectation is correct, Genesis Energy considers that tendering would be pre-emptive in light of the absence of a more comprehensive cost-benefit analysis (a 'CBA'). A CBA is a requirement of the Gas Act.⁴ It is unclear from the range figures provided whether the preferred option would provide a positive net present value.⁵
19. Given the likely magnitude of the proposed investment, Genesis Energy wishes to be assured that the investment is warranted. We believe that the preferred solution is the best option for the industry. However we urge the Gas Industry Company to undertake a more detailed CBA to prove that this is a net benefit positive option before the industry proceeds to the next stage in its process. In this regard, the Gas Industry Company should look to the learning's from the electricity industry in this area. These learning's are that a more detailed CBA will likely prove that the preferred solution, which provides transparency to participants, will provide significant industry benefit.⁶
20. In light of the above, Genesis Energy suggests the following high-level process be conducted from this point forward:
 - a. Cost information on the options be sought from participants on status quo and the two most likely options;
 - b. Expressions of interest (including an indication of possible price) sought and received from possible solution providers;
 - c. A more detailed CBA be completed;

⁴ Section 43N(1)(b)(i).

⁵ Based on the current annual cost to all retailers of \$40,000, a potential saving to all retailers of \$22,000, a one-off systems cost of between \$90,000 and \$500,000, an on-going operational cost of something less than \$90,000 and one-off implementation costs per retailer of around \$20,000 or more.

⁶ In particular, Genesis Energy wishes to refer the Gas Industry Company to a relatively recent exercise undertaken by the Electricity Commission with respect to the implementation of a new reconciliation model. In this exercise, the Electricity Commission wrote to the relevant participants specifically requesting reasonably detailed cost information regarding both the counterfactual (the status quo) and two alternative options. This information was combined with the avoidable costs that were expected to be achieved by the implementation of either of the two alternative options and the anticipated cost associated with the new reconciliation system (this was provided confidentially by a prospective provider). A NPV calculation of the difference between the counterfactual and each of the options was then completed in order to determine the most NPV positive option. Further details regarding this exercise can be found in the *Report of the Reconciliation Project Team*, December 2004, section seven.

- d. Industry consultation on the preferred option and implementation process and timetable; and
 - e. Implementation. This should include (amongst other things):
 - i. management of the tender process;
 - ii. rule drafting;
 - iii. a review of the CBA once the tender price known; and
 - iv. frequent targeted communications with the industry on progress against the project plan.
21. Finally, with respect to project governance, given the highly technical nature of the tasks to be completed, and the importance to again learn from the electricity industry,⁷ experience suggests that the formation of a small, single-purpose project team (possibly a subgroup of the working group) is likely to be the best vehicle to most effectively manage this particular work stream through to its completion. Genesis Energy would welcome further consideration of this issue by the Gas Industry Company and would be happy to bring its wealth of experience to bear.

Conclusion

22. Genesis Energy welcomes and supports the work undertaken by the Gas Industry Company with regard to proposed switching arrangements. While Genesis Energy has suggested some improvements, both to the content of the consultation under consideration, and to future consultation processes, this work, when it comes to fruition, is likely to be of significant benefit to end-consumers.
23. Genesis Energy is happy to discuss further any aspect of its submission with the Gas Industry Company.
-

⁷ Most particularly in regard to getting it 'right first time'. Two major sets of enhancements have been made to the electricity registry since its inception in 2001, each predominantly relating to initial under-scoping of industry requirements.

Appendix One

Questions	Response
<p>Q1: Do you agree that the Gas Industry Co has identified the key issues in relation to current customer switching?</p>	<p>Genesis Energy feels that although the key issues have been captured there was very little acknowledgement of cost to other industry parties. This is because the costs, as outlined in the consultation document, seem to be predominantly associated with Retailers.</p> <p>We would like to raise the point that the Distributor and Meter Owner costs are as significant as those faced by Retailers.</p> <p>The lack of a Central database of record contributes to inaccurate billing between Distributors, Retailers and GMS Owners. Although all parties are committed to reconcile multiple data sets, confidence in current financial settlements between parties is diminished.</p>
<p>Q2: Do you agree the Gas Industry Co has identified all reasonably practicable options to meet the switching objective? If not, please provide details of any other reasonably practicable options.</p>	<p>Genesis Energy believes that the Gas Industry Co has put a lot of thought into the options as outlined and can not foresee any other solution at this stage.</p>
<p>Q3: Do you agree with the Gas Industry Co's analysis of the Status Quo Option</p>	<p>As mentioned in the response to Question 1 we feel that the cost to all industry parties has not been accurately captured.</p> <p>It is encouraging to see that the Gas Industry Co has been able draw from the work which had previously been conducted by the Gas Industry Company Switching and Registry Working Group (SWRG).</p>
<p>Q4: Do you agree with the Gas Industry Co's analysis of the Reconciliation Code Enhancements Option?</p>	<p>Although Enhancement of the Reconciliation Code would provide a greater level of information exchange between parties at low implementation cost, it is considered that the same issues and their associated costs to individual industry parties would remain with very little benefit to the industry.</p>

Questions	Response
<p>Q5: Do you agree with the Gas Industry Co's analysis of the Central Registry Option?</p>	<p>Whilst we are in general agreement with the assessment of the Central Registry Option we believe that more emphasis needs to be placed on data cleansing project (pt 7.2 pg 20) and its associated cost.</p> <p>As those parties who have been involved in the Electricity Commission Registry (ex MARIA Registry) are aware, migration of incorrect data has seen the need for Electricity Industry parties to spend significant amounts of time and money fixing data in the live system.</p> <p>Genesis Energy is committed to providing accurate migration data in order to avoid the pitfalls experienced with the Electricity Commission Registry.</p>
<p>Q6: Do you agree with the Gas Industry Co's assessment of the potential cost of the arrangement. Do you have any information about what it would cost your company to implement a Central Registry solution?</p>	<p>Although the estimated implementation costs as stated range from \$90,000 to \$500,000 there will be considerably more costs to individual parties to allow in-house automation of the information population, exchange and notifications as outlined in sections 12 to 15 of the consultation paper.</p> <p>At this stage we are unable to comment further on implementation costs to the business without more specific indications of the costs the Gas Industry Co would like quantified.</p> <p>We believe that the preferred solution is the best option for the industry. However we would urge the Gas Industry Co to undertake a more detailed cost/benefit analyses to prove that this is a net benefit positive option before the industry proceeds to RFP.</p>
<p>Q7: Do you agree with the Gas Industry Co's analysis of the Central Registry integrated with Allocation Mechanism option?</p>	<p>Genesis Energy is in agreement with the assessment on the Central Registry with Allocation Mechanism.</p> <p>As mentioned the lack of governance arrangements, to ensure quality and compliance, is an issue which is not unique to this option but rather an issue which must be resolved prior to any option being implemented.</p>
<p>Q8: Do you agree that the Central Registry option is the preferred switching option for the gas industry? What are your reasons?</p>	<p>Genesis Energy is supportive of the Central Registry option being the preferred Switching Option. There are numerous reasons why we are supportive of the preferred option and a lot of these have already been outlined within the table on page 24 of the consultation paper.</p> <p>However we think that some of the benefits of this option have been undersold.</p>

Part B	
Questions	Response
<p>Q9: To what extent do you agree with the high-level description of the Central Registry's services?</p>	<p>Whilst initial switching statistics suggest than an expected volume of switches to be managed is 12,000 per annum (pg 28 para 9.5) we would urge that the Gas Industry Company to ensure any system which is implemented will be able to facilitate higher switch volumes. In doing so we would look to avoid the "enhancements" the Electricity Commission Registry has required.</p>
<p>Q10: Do you agree that all Premises on all current open access and non open access networks should be included on the Central Registry? What are your reasons?</p>	<p>We feel that for consistency within the New Zealand Gas Industry is essential for all participants to have confidence in the co-regulatory model in which we are operating.</p> <p>Genesis Energy is also committed to "reducing the barriers to customer switching" and the inclusion of premises on all current open access and non open access would help to facilitate this.</p>
<p>Q11: Do you agree with the analysis of user interests in the Central Registry data and processes?</p>	<p>We are pleased to note the inclusion of Meter Owners as an interested party.</p>
<p>Q12: To what extent do you agree with the Central Registry general functionality described in this section?</p>	<p>Whilst the Gas Industry Co has provided an overview of Registry Security, we would encourage that a system wide security and validation/reference table process be agreed to prior to implementation to avoid any adverse affects to data quality and general data security.</p> <p>We would also like to suggest that although 10.18 raises a valid concern with regards to the removal of expired codes, there was no mention of a code being made inactive and thus prevent future use of the expired code.</p>
<p>Q13: Do you agree with the proposed ICP parameters for the registry? Gas Industry Co Switching Consultation Paper</p>	<p>Yes.</p>
<p>Q14: To what extent do you agree with the proposed participant responsibilities, in particular the proposal that GMS parameters on the registry are maintained by meter owners?</p>	<p>Genesis Energy believes that in order to source the most accurate information about any piece of data, then the creator of that data should be responsible for it's maintenance within the preferred option. If GMS owner participation within the preferred option is not included then another party, such as the Retailer or Network Owner would need to populate the required fields, thus requiring double handling of information and delays to updating the registry.</p>
<p>Q15: To what extent do you agree with the proposed switching information exchange process?</p>	<p>The information exchange process as outlined is very similar to the information exchange process used within the Electricity Industry. As a starting point this is as good as any and will be a familiar process to the majority of participants within the New Zealand Gas Industry.</p>

Questions	Response
<p>Q16: To what extent do you agree with the proposed switch withdrawal process?</p>	<p>Genesis Energy is supported of the process as documented. However, this process tends to only deal with a switch withdrawal prior to the switch being completed through the registry. Has there been any consideration of a switch withdrawal process after the switch has been completed in the registry? This situation can arise if the wrong ICP was switched.</p>
<p>Q17: To what extent do you agree with the proposed transfer read renegotiation process?</p>	<p>Genesis Energy is supportive of the process as documented.</p>
<p>Q18: Do you agree with the proposed gas registry acknowledgements and notifications process?</p>	<p>Genesis Energy is supportive of the process as documented.</p>
<p>Q19: Do you agree with the proposed registry reporting capability?</p>	<p>As an initial indication of the types of reports participants may require, we believe the reports as outlined provide an acceptable overview.</p>