



**Options for Switching Arrangements for
the New Zealand Gas Industry**

***Powerco's submission on the
Consultation Paper to Gas Industry
Company***

4 November 2005

1. Introduction

- 1.1 Thank you for the opportunity to present comments on the consultation paper Options for Switching for the New Zealand Gas Industry.
- 1.2 Powerco is one of only two dual energy network companies operating in New Zealand. We have the second largest electricity distribution network and the largest gas distribution network measured by number of customer connections. We operate 5 gas networks located in Taranaki, Hutt Valley Porirua, Wellington, Manawatu-Horowhenua and Hawkes Bay with an overall network length of approximately 5,350km.
- 1.3 As noted in paragraph 5.9 of the consultation document Powerco developed a gas switching website to assist retailers facilitate customer switching. Our in-house solution is not intended to provide all the functionality of a central registry but has proved to be a low cost solution to the lack of a central registry. Recently we made some further enhancements that allows Retailers to peruse most of the distributor maintained fields specified in the GIC's consultation document.
- 1.4 It is our understanding that Vector are also in the process of enhancing their website to allow for retailer switching and will likely provide similar ICP information as Powerco.
- 1.5 As requested Powerco has provided comments in the format prescribed by the Gas Industry Company, however there are a number of other pertinent items which are not adequately covered by the questions and we bring these to your attention below:

2. Registry Solution

- 2.1 Powerco's preferred initial registry choice is option 2 (Reconciliation code enhancements). We support in principle options 3 (Central Registry) and option 4 (Central Registry with Integrated Allocation Mechanism) subject to the qualifications below (and ref Q6). Irrespective of what choice is finally adopted, option 2 needs to be implemented first. This option will assist to standardise processes with data cleansing operations also being performed, which need to be undertaken before the industry, can transition into a more integrated approach to registry options.
- 2.2 Once option 2 is completed and working as expected, then stakeholders though the Gas Industry Company should strategise to develop a pathway to move from option 2 to option 4.

3. Competition

- 3.1 The consultation paper does not address Network competition issues. These will need to be addressed and are commented on in our response. Powerco competes with networks owned by Nova/Todd. Due to competition considerations it is important that any registry development apply to all networks, or alternatively access and/or data held in the registry relating to Powerco ICP's will need to be controlled/limited.

4. **Regulation**

- 4.1 The development of registry options needs to fully comply with the standards prescribed for regulations under the Gas Act (sections 43L and 43N), including cost/benefit analysis.
- 4.2 In addition voluntary compliance may not be attained and subsequently maintained.
- 4.3 In these circumstances if preceding work is not to the required regulatory standard additional cost and delay could result.

5. **Costs**

- 5.1 Included in this response are comments on costs. It appears that further work on the costs associated with each option should be the initial task undertaken following the completion of this consultation process, with a view to achieving a consensus as soon as possible on funding/switching changes.

Question	Comments
<p>Q1 Do you agree that the Gas Industry Co has identified the key issues in relation to current customer switching?</p>	<p>Powerco believes that the majority of the key issues have been addressed here. We note that the paragraph 5.13 states the costs to retailers but there is no comment on the associated costs for distributors and meter owners.</p> <p>We do not agree with 5.16 that Retailers have incomplete access to data this is not our experience. Retailers operating on the Powerco networks receive a monthly database extract plus our contracting arrangements allow retailers to request any reasonable amount of information from our database. Few requests for additional information have been received.</p> <p>In relation to 5.17 high administration cost the savings for Powerco would be minimal (on the assumption that registry costs will be met by a direct charge).</p> <p>The key issues for Powerco are:</p> <p>Information discrepancies. Whilst most switchers occur in a seamless manner, on occasion where there is disagreement we can become embroiled in the switch process so much so that we can end up liasing between the parties to agree a switch date. Whilst this is not a position we wish it be in, the costs in terms of inaccurate billing, retrospective corrections etc have necessitated that we become involved.</p> <p>Network competition. Network competition issues have not been identified nor considered.</p> <p>Competition considerations are likely to restrict the amount of information accessible on the registry in the absence of all networks, including Todd/Nova, being participants (ref Q5).</p>

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	<p>Network Switching. Issues in relation to networks outside current arrangements have not been address- i.e Todd/Nova Networks with no analysis undertaken.</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>Possibly the only additional option is to consider adding Gas ICP records into the National Electricity Registry to create a National Energy Registry. With the Electricity Commission establishing a working group to review the electricity registry it might be an appropriate time to explore this option.</p>
<p>Q3 Do you agree with the Gas Industry Co's analysis of the status quo option?</p>	<p>We agree with the information outlined except there is no analysis of meter owner or distributor information.</p> <p>Again whilst costs are high for some participants the costs for Powerco are less so.</p>
<p>Q4 Do you agree with the Gas Industry Co's analysis of the Reconciliation Code Enhanced Option?</p>	<p>Powerco believes that whilst this option will not address all the shortfalls of the difficulties outlined it is a sensible initial step to be taken in the interim to allow for future development of a central registry. The benefits of adopting this option would be to standardise processes and forms, to cleanse data and address the deficiencies with the Reconciliation Code, all of these measures would need to be taken to permit a move to a Central Registry.</p> <p>We disagree with sections 7.12 and 7.13. The claims made are based solely on empirical evidence. Standardisation coupled with automation will allow parties to establish better business to business rules (B2B) that will lead to improved transparency and the ability to manage switching more effectively which will result in data quality improvements. With the two largest distributors having systems that assist to facilitate switching of say 70% of all gas ICP's the marginal benefit for Powerco is small.</p>

Question	Comments
<p>Q5 Do you agree with the Gas Industry Co's analysis of the Central Registry Option?</p>	<p>Network competition issues have not been identified nor considered.</p> <p>We believe that all open and non-open access networks must be included on the registry; this issue together with registry development costs are of utmost importance for Powerco.</p> <p>All Powerco's networks [Vector's Auckland networks] with the exception of Manawatu compete with Todd/Nova's networks. Switching between networks whilst infrequent in quantity occurs and there needs to be a mechanism to encapsulate this, if those networks do not form part of the registry.</p> <p>A registry solution needs to propose a solution, which will not allow participants to data-mine the registry to obtain competitive information.</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>Powerco supports in principle the Central Registry Integrated with an Allocation Mechanism.</p> <p>Powerco is unable to support the development of the Central Registry financially due to revenue controls imposed by the Commerce Commission and similarly will need to recover all developments costs it incurs (refer Q1 re minimal cost savings for Powerco).</p> <p>Powerco calculates that based on the following parameters (development costs \$500k annual operating costs 120k but this retailer cost saving of \$22k per month) the registry might be self-funding (at a WACC of 12% pre-tax). Higher development and or registry operating costs and/or a change in WACC requirement would most likely result in a switch fee. Further we observe that not all costs have been fully considered in particular data cleansing, network and</p>

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	<p>GMS owner expenditures do not seem to have been addressed.</p> <p>Central Registry solution is not justifiable financially from Powerco's perspective. Even assuming a CAPEX was included in the regulatory asset base, Powerco regulated WACC is 8% - whereas to break even Powerco's WACC would need to be 12%.</p> <p>A switching fee would also be necessary if Retailer cost savings were not available to fund the development costs. A significant element of the required cost benefit analysis is a comprehensive assessment of whether a net consumer benefit would be derived under option 3.</p> <p>It seems doubtful given the uncertainties as to the level of development and operating costs that would be incurred that a net consumer benefit can at this point be reasonably demonstrated.</p> <p>The cost/benefit analysis for all options preceding for further consideration will need to comply with the standard of analysis required for the making of regulations (sections 43L, 43N of the Gas Act 1992 refer). The cost/benefit analysis in the consultation paper does not reach this standard.</p> <p>We note that there is neither methodology nor any allocation method in relation to which party (or parties) are going to bear the costs of a Central Registry.</p> <p>The costs associated with developing a Central Registry will not be based on the number of installations that the solution will need to cater for but will be based on the complexity of the solution being proposed. For this reason, Powerco believes there is a benefit in extending the investigation to include the feasibility of using the National Electricity Registry for Gas ICP's. As this will be leveraging existing</p>

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	<p>infrastructure the marginal costs are expected to be greatly reduced. In addition, the ongoing support costs could be reduced.</p> <p>Furthermore, given that many participants are dual energy providers there are obvious synergies and simplifications in only having to interface to one system.</p> <p>Powerco would like to see more work done ascertaining the likely costs and the development of rules in relation to data quality standards for the data-cleansing project. Industry participants who were involved in the Electricity Commission Registry will be aware of the amount of human effort in time and costs which surrounded the registry clean-up. The Gas Industry Company should be cognisant of this and needs to take effective measures to ensure that costs are contained.</p> <p>Powerco is committed to providing accurate data in order to avoid the lessons of MARIA.</p>
<p>Q7 Do you agree with the Gas Industry Co's analysis of the Central Registry integrated with Allocation Mechanism option?</p>	<p>We agree with the assessment on the Central Registry Integrated with Allocation Mechanism.</p> <p>Powerco supports in principle the Central Registry Integrated with an Allocation Mechanism. However lack of governance arrangements coupled with substantial work that would be required to be undertaken to agree a process to reconcile gate station quantities on a daily basis does not make this option feasible at present.</p> <p>A detailed cost benefit analysis of this option along with an assessment of benefits would need to be undertaken before this option could be advanced further.</p>
<p>Q8 Do you agree that the Central Registry option is</p>	<p>Powerco supports in principle the Central Registry option. However</p>

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<p>the preferred switching option for the gas Industry? What are your reasons?</p>	<p>we would like to see:</p> <ul style="list-style-type: none"> ✦ Detailed cost/benefit analysis performed; and ✦ Consideration of network competition issues. <p>Furthermore, as stated in Q4 we would like to see the Gas Industry Company adopt the Reconciliation Code Enhancement model first with a view to transitioning to a Central Registry in future.</p>
<p>Q9 To what extent do you agree with the high-level description of the Central Registry's service?</p>	<p>We agree with the high level analysis; however the benefits of a virtual Central Registry are not adequately explored here so it is difficult for participants to see whether there are any benefits or pitfalls to this model.</p> <p>There should be some ability for participants to create ad-hoc reports from the registry for the purpose of reconciliation to their own internal databases. This ability should be designed with suitable flexibility to enable retailers/ distributors and meter owners to query any part of a record they are responsible for populating.</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>All open and non-open access networks needs to be included on the registry, this its of utmost important for Powerco (refer to comments on network competition).</p> <p>All of Powerco's networks operate in a competitive business environment with Nova/Todd. Vectors Auckland networks also experience competition from Nova/Todd.</p> <p>Switching between networks whilst immaterial in quantity occurs and there needs to be a mechanism to encapsulate this.</p> <p>Any Central Registry solution needs to accommodate network competition and the competitive nature of network competition and</p>

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	<p>propose a solution, which will not allow any party the ability to data mine or ability to gain access to commercially sensitive information.</p> <p>To ensure all parties are treated fairly and equitably all parties that have access to the proposed Central Registry must also make their information transparent to other parties and governed by the same regulations. Alternatively data included in the registry will need to be limited.</p> <p>Furthermore, it is possible for both an open access network and a non-open access network to supply the same customer. Therefore they should be subject to the same reconciliation process.</p> <p>The development of suitable arrangements to accommodate network competition considerations is a requirement for Powerco's participation.</p>
<p>Q11 Do you agree with the analysis of user interests in the Central Registry data and process?</p>	<p>We are pleased to see meter owners as a party to the registry. It is our position that they are the most appropriate participants to update and maintain their asset information.</p>
<p>Q12 To what extent do you agree with the Central Registry general functionality described in this section?</p>	<p>We agree with this functionality.</p>
<p>Q13 Do you agree with the proposed ICP parameters for the registry?</p>	<p>Changes are needed to table 6 and table 8 to limit the extent of the information accessible by all parties who are not currently network owner/retailer or GMS owner of record would be required if not all network service providers participate in the registry.</p> <p>The rational for this change is to enhance security and prevent data mining. For example ICP's on open access networks have a</p>

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	<p>requirement to publish their pricing plans where as non-open networks do not. Therefore as proposed it could make it possible for a non-open access network operator to access commercially valuable information to the detriment of open access networks. This is not acceptable to Powerco.</p> <p>There are parallel competition considerations between GMS owners that will require appropriate competition safeguards as well.</p> <p>We propose the following:</p> <p>A Retailer or GMS owner who is not the retailer of record (or a network owner who is not the network owner of record) can search by ICP, address or meter serial number to locate an ICP however the only information they will be able to see at this time is:</p> <ul style="list-style-type: none"> ➤ ICP Identifier ➤ ICP creation date ➤ Network operator ➤ Gas gate code ➤ ICP connection type code ➤ Proposed retailer ➤ Loss factor code ➤ All address information ➤ Property name

Question	Comments
	<p>To obtain information in relation to pricing, network pressure, MHQ, network pricing or any information, which gives the searcher information in relation to the size of the customer, should be submitted to the network operator via a Network Information Request (NIR) enquiry process. Thus the Network operator will need to be able to send a Network Information Acknowledgement (NIA) to the enquiring retailer.</p> <p>We propose that table 8 does not display the GMS price code at enquiry stage.</p> <p>In addition for Load Shedding there needs to be some agreement as to which party should be populating this.</p> <p>ICP Altitude – Powerco doesn't currently maintain this information in its database, however Retailers do. Given that each Retailer has differing band parameters for altitude, if network companies are going to maintain this we require standardisation and consent in relation to the bands.</p> <p>Furthermore, Powerco proposes that the GMS owner populates the Meter owner code not the Retailer. The GMS owner should be responsible for all the GMS related fields.</p> <p>Suitable fields need to be included for Retailers to record certification date for appliances and installation certifications.</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 the meter owners?</p>	<p>We believe that the GMS owner is the appropriate participant to populate and maintain the GMS the information on the registry.</p> <p>For the GMS owner to maintain their information they will need to be able to:</p>

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	<ol style="list-style-type: none"> 1. Be able to send the meter details before the retailer details are known and thus be able to add their own information as soon as the ICP is created. 2. GMS owners should be able to update any record where they are the owner of record, but they will have no ability to change the status of an ICP if say the meter was decommissioned. 3. The registry should accommodate instances whereby there are multiple GMS's for the same ICP.
Q15 To what extent do you agree with the proposed switching information exchange process?	Section 12.20 should remove “register content”. The Network Information Request (NIR) and Network Information Acknowledgement (NIA) as described in Q13 will need to be mentioned in the section and included in the diagram.
Q16 To what extent do you agree with the proposed switch withdrawal process?	We agree with this process.
Q17 To what extent to you agree with the proposed transfer of read re-negotiation process?	We agree with this process.
Q18 Do you agree with the proposed gas registry acknowledgements and notification process?	We agree with this process.
Q19 Do you agree with the proposed reporting capability?	The monthly reporting of Retailer ICP tenures will not be accurate unless the active/inactive flag is made more specific. An ICP should move between active and inactive statuses only when there has been a change to the physical network connectivity. In the main these changes will be maintained by the network/retailer; at other times the connection or disconnection may have been made by an unauthorised party, and will become evident on a site visit. It is essential that there

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	is an audit trail of disconnections and reconnections to support changes to the active/inactive flag.