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Mr S Bratt  
Gas Industry Company  
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Dear Simon

**CONSULTATION PAPER – GAS SWITCHING**

Thank you for the opportunity to comment on the “Options for Switching Arrangements for the New Zealand Gas Industry”. I am responding on behalf of Wanganui Gas Commercial Division (WGL), which is responsible for our company’s Energy Trading and Retailing operations. A separate submission is being made by GasNet our networks operations division.

I have attached our answers to the questions in the format requested by the Working Party but given the closed nature of the questions I would like to take this opportunity to comment further on the each of the options as outlined within the Consultation Paper. I would emphasise that the following comments are and can only be based on WGL’s experiences with gas switching since the inception of mass-market competition some five years ago.

In addition it appears to me that the Working Party has confused two separate but equally important and related issues that of switching customers and the month end allocation process. In my opinion the month end allocation process requires more urgent attention than gas switching. I do however recognise the inefficiencies of the existing switching protocols and the interrelationship between the two processes.

Prior to making my comments I would like to confirm that our preferred option, as put forward by the Working Party, is Option 4 but only if a robust cost benefit analysis showed clear benefits to the industry.

**Option 1 – Status Quo**

There are a number of issues raised in the Consultation Paper regarding the Status Quo which WGL believes are incorrect. The current system whilst far from perfect

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does have one important attribute; it works as confirmed by the fact that 1,000 switches per month are successfully processed.

Wanganui Gas has switched customers both inwards and outwards with most of the other gas retailers including Contact Energy, Genesis Energy, E-Gas and Nova Gas over the last 12 months and to the best of my knowledge all switches have been completed within the time frame of the existing Customer Transfer Protocol.

The paper states “File formats are not standard”. This is incorrect as far as switching is concerned. The Customer Transfer Protocol lays down a standard file format for the exchange of switching information between retailers, network and GMS operators. There are however no standard file formats for the exchange of reconciliation and allocation information exchanges, which is a different issue.

The paper raises the issue of customer dissatisfaction; however it does not identify the types of complaints that require resolution and no details are provided in the consultation papers. If they relate to the time taken to switch customers, are the complaints as a result of problems with the current system or due to the retailer’s lack of knowledge of the current protocol leading to customers being given unrealistically high expectations of timeframes? Given that most switches are based on the customer’s next meter reading date this can mean that the switch may not be completed for up to two months on a bi-monthly meter reading cycle. WGL is opposed to using estimated readings for switches as these cause a range of problems both with the customers and with the network operators.

The paper states that the Gas Industry Company (GIC) will take ownership of the new switching system. Therefore by definition I have to assume that this includes the current system in the unlikely event that the Industry participants adopted the Status Quo. Therefore whilst it is true that there is currently no governance to support and enforce compliance within the current system I would expect that the GIC would move to resolve this issue. In fact I believe that the GIC should make such a move to enforce compliance with the existing system as soon as possible.

The paper states that the time standards are “often” not met, but often is not defined. It is important to accept that regardless of the system adopted that there will always be exceptions to the rule.

Finally on costs the paper has identified that the Industry spends 416.67 hours per month switching customers at a cost of \$40,000. As the paper does not breakdown these costs I can only assume that given the nature of the current switching process that it relates mostly to labour costs. These costs seem very high to me. If these costs all related to labour costs, then based on an average salary of \$50,000 per annum the monthly cost for 1,000 switches is just less than \$10,000 per month.

## **Option 2 - Reconciliation Code Enhancements**

This option has very little to do with the switching process and all to do with the month end allocation processes. WGL agrees with the basic principals of this

proposal. However WGL could not accept the file formats as originally proposed as they were, in our opinion, both cumbersome and inefficient.

If this Option was reinvestigated and all of the networks could agree on a set of gas specific file formats rather than those originally put forward then I see no reason why this could not be a cost effective way of reducing our current monthly costs.

A combination of improved governance of Option 1 and development of cost effective allocation file formats as described in Option 2 is potentially a very cost effective interim solution to these matters.

### **Option 3 - Central Registry**

Whilst I believe that a move to some form of Central Registry is inevitable my main concern about adopting Option 3 is the potential cost verses the potential benefits. As stated above based on the limited information provided I believe that the costs associated with the Status Quo may be overstated but accept that I may be understating them. However the main reason that the current system was adopted by the Industry was based “.... *on the relative size of the Industry and a desire for a less complex and lower cost solution*”.

As far as this option for a Central Registry for switching is concerned I believe that a detailed cost benefit analysis should be completed before any commitment is made by the Industry to move to a switching only Central Registry. It must always be borne in mind that we in the Gas Industry serve a customer base of only 230,000 and any additional costs that we incur will be passed onto these customers.

The Gas Industry is moving into a period of significantly increased costs. These costs include increased wholesale gas prices, increased cost of managing the risks from mis-match on the Maui pipeline plus increased compliance costs for both the GIC and the Electricity and Gas Complaints Commission. All of these costs will be borne in the main by our mass market residential and small business customers. Each incremental cost that we have to pass onto our customers will lessen the competitive advantages for gas as a fuel of choice.

Much is made in the paper about the existing system being a barrier to entry for retailers. Despite this WGL, one of the smaller gas retailers, is active in one way or another on all of the natural gas networks throughout the North Island. To date a decision on entering a part of the market has never included the cost of switching. However it is possible that our cost of compliance in moving to a Central Registry as proposed in the consultation paper may create a barrier to our continuing to be competitive within the gas retail market.

If I read this paper correctly the most likely Option 3 solution for the Central Registry will be a spin off the current electricity registry. This has the potential to provide a competitive advantage to those dual fuel retailers who currently operate on the electricity registry to the detriment of gas retailers such as WGL.

It is interesting to note on the competitive aspect of the proposal that the Central Registry is to be designed to cope with 12,000 switches per annum. The current

system is estimated to be switching 1,000 customer per month or 12,000 per annum. From these figures I can only conclude, rightly or wrongly, that the Working Party is unconvinced that competition within the gas retail market will be enhanced by the creation of a Gas Industry Central Registry.

#### **Option 4 – Central Registry Integrated with Allocation Mechanism**

This is WGL's preferred solution subject to a robust cost benefit analysis. WGL currently spends an estimated 75 man-hours each month on allocation processes for approximately 30,000 customers. Compared to this the costs and the time that we spend on customer switching customers is in our opinion relatively small.

WGL does however appreciate that the Industry can only move to this option if it has a central switching registry. Therefore should the Industry decide to adopt Option 3 then it should only do so on the basis that the Central Registry is capable of being developed into Option 4 in a cost efficient manner which does not need to be the full blown New South Wales model.

If my assumptions are correct then I would take this opportunity to ask the Working Party not to automatically adopt the apparently simple solution of trying to integrate gas into the existing electricity registry without ensuring that this can be developed to provide some form of automated allocation processes.

#### **Functionality of Central Registry**

Unfortunately time has not permitted me to fully consider the functionality as proposed by the Working Party. I do however believe that the basic principals are correct. I have taken the opportunity to comment on certain aspects in your submission form that I think requires further consideration.

Again thank you for this opportunity to comment on the switching proposals. I would be more than happy to discuss any of the above comments or issues with the Working Party and can be contacted on e-mail at [jim.raybould@wangnauigas.co.nz](mailto:jim.raybould@wangnauigas.co.nz) or by phone on 06 349 0126.

Yours sincerely



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