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Paul Mitchell  
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Gas Industry Company  
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Dear Paul

## **Switching Arrangements for the New Zealand Gas Industry – Part 1**

Genesis Power Limited trading as Genesis Energy welcomes the opportunity to provide comments to the Gas Industry Company (GIC) on the discussion paper entitled 'Switching Arrangements for the New Zealand Gas Industry – Part 1' dated 31 August 2006. Genesis Energy has reviewed the discussion paper and is pleased to have the opportunity to respond to the issues raised in it.

Genesis Energy is generally supportive of the approach taken in the discussion paper and wishes to congratulate the Gas Industry Company in the work that it has done on what Genesis Energy considers to be a core element in the eventual regulatory framework of the gas market.

With the exception of some comments below on the process going forward, Genesis Energy's responses to the specific consultation questions, including its comments on those areas on which Genesis Energy would like further consideration, are attached to this letter as Appendix One.

### **Process from Here**

Genesis Energy wishes to make two general observations regarding the process going forward. These relate to the:

1. need for more information regarding the process going forward generally;  
and

2. desire to review the rules in their 'final' form prior to their submission by the Gas Industry Company to the Ministry of Economic Development (the 'MED').

Genesis Energy canvasses both of these issues briefly below.

Section 9 of the consultation paper sets out the indicative timelines and milestones for the delivery of the switching proposal. Unfortunately, these timelines and milestones only extend to the date for completion of the evaluation of industry feedback on this consultation paper. While Genesis Energy recognises (and indeed accepts) that dates may become more indicative after completion of the feedback evaluation task, Genesis Energy is disappointed that the Gas Industry Company has not provided further details.

In particular, Genesis Energy notes that in a presentation on switching, it was stated that the:

"Gas Industry Co believes that the formation of a project team is the most effective means of achieving future deliverables."<sup>1</sup>

However, no details regarding either the establishment of a project team or how industry participants can participate in the process up to the 'go-live' date are provided in the consultation paper. As signaled in Genesis Energy's responses to the specific consultation questions set out in Appendix One,<sup>2</sup> Genesis Energy has a keen interest not only in the details of the rules, but also in the details of such issues as the contractual 'architecture', the tender process, the selection of service provider and overall implementation timeframe. Genesis Energy does not believe that industry participant's should merely be 'bystanders' to the process going forward but rather, intimately involved in it.

With respect to the immediate development of the switching rules, no indication is provided in the consultation paper as to whether industry participants will see the rules again before they are provided to the MED for its scrutiny. Genesis Energy considers that this should occur for three inter-related reasons - it will:

1. Enable the industry to detect any material problems with the rules *before* they are presented to the MED;
2. Provide industry participants with an 'early look' at the likely final form of the rules and therefore facilitate the timely development and implementation of industry participant's internal systems and processes; and

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<sup>1</sup> Presentation to the Switching and Registry Working Group, dated 27 April 2006, slide 14.

<sup>2</sup> Such as in Genesis Energy's response to Q10 relating to development costs and intellectual property.

3. Provide the MED with a greater degree of comfort that the rules are accurate and robust, thereby facilitating their approval by the Minister of Energy.

Genesis Energy would be happy to discuss any aspect of this submission with the Gas Industry Company should it wish to do so. Please do not hesitate to contact either myself on [john.carnegie@genesisenergy.co.nz](mailto:john.carnegie@genesisenergy.co.nz) or 021 375 061, or Tracey Kaio on [tracey.kaio@genesisenergy.co.nz](mailto:tracey.kaio@genesisenergy.co.nz) or 021 778 375.

Yours sincerely



John A Carnegie  
Regulatory Affairs Manager  
Genesis Energy

## Appendix One: Responses to Specific Consultation Questions

QUESTION	COMMENT
<p><b>Q1:</b> Do submitters agree with this Regulatory Objective? If not, what do you think the regulatory objective should be?</p>	<p>Yes.</p>
<p><b>Q2:</b> Do submitters agree with the analysis of the Proposal? If not, please state your reasons.</p>	<p>Yes.</p>
<p><b>Q3:</b> Do submitter agree this Proposal complies with section 43N of the Gas Act? If not, please state your reasons.</p>	<p>Yes.</p>
<p><b>Q4:</b> Do submitters have any other information that they consider is relevant to the assessment of the Proposal?</p>	<p>No.</p>
<p><b>Q5:</b> Do submitters agree that the Proposal meets the Regulatory Objective? If not, please state you reasons.</p>	<p>Yes.</p>
<p><b>Q6:</b> Do submitters agree with the benefits relative to the costs of the Proposal as set out in Appendix 2? If not, please state your reasons.</p>	<p>While it is reasonably clear that, as a result of the introduction of a switching registry and rules, that the conditions will exist for gas retail competition to flourish to a greater extent, Genesis Energy wonders about the degree to which the calculations outlined in Appendix 2 provide an aura of scientific exactitude that they simply do not deserve.</p> <p>By way of example, Genesis Energy notes the various assumptions regarding inclusions and exclusions, and questions the relevance of the comparison to either the electricity market or Victoria in other than the very broadest terms. Genesis Energy also notes that the retail margins quoted in Table 11 of Appendix 2 do not accurately reflect all of the costs associated with each customer and should not be used in any way to estimate the relative profitability of a customer.</p>
<p><b>Q7:</b> Do submitter believe the Rules adequately reflect and govern the Proposal? If not, please provide all drafting amendments in mark-up.</p>	<p>Genesis Energy congratulates the Gas Industry Company on the apparent effort that it has gone to in developing the rules. Genesis Energy is pleased to be able to note that with some small exceptions (see below), it believes the rules to be a fair reflection of an efficient switching process.</p> <p>Genesis Energy's comments on the specific rules are:</p> <ol style="list-style-type: none"> <li><b>rule 21.3 How and when development fee must be paid:</b> Genesis Energy suggests that the payment of the invoice by participants is</li> </ol>

QUESTION	COMMENT
	<p>extended to one month from the date of the invoice as opposed to 10 working days. This timeframe has been suggested in order to allow internal process of each participant to ensure that the charges as detailed in the invoice are correct and that participants are given time to make any queries regarding those charges if necessary;</p> <p>2. <b>rules 22.5 – 22.7 Ongoing Fees:</b> Genesis Energy suggests that this fee be a fixed monthly fee, as seen in the Electricity Market, rather than a dynamic fee as prescribed. This is mainly to help participants budget and to reduce administration costs to all parties, including the Gas Industry Company.</p> <p>Irrespective of which option is finally adopted,<sup>3</sup> Genesis Energy suggests that the Gas Industry Company should look to have some type of wash-up and audit process which all parties adhere to;</p> <p>3. <b>Schedule 1 - Part C:</b> Genesis Energy would like to see the inclusion of the meter multiplier added to these parameters. One of the aims of the Government Policy Statement is to reduce the barriers to customer switching. As a retailer, one of the barriers faced by Genesis Energy is the efficient and more importantly the accurate exchange of information relating to an ICP. It would seem that the inclusion of such a vital piece of the metering information in the registry would not only help to ensure accurate customer billing by retailers to end consumers but also between distributors to retailers and aid in accuracies within allocation and reconciliation which impact on upstream/wholesale markets. For example, a simple mis-key of a multiplier from 1 to 10 could see the customer billed for 10 times more volume than they have consumed. The reverse is also true that a mis-key of 1 when it should be 10 would see the customer billed 10 times less than they should have been. Both scenarios result in a rebilling for the customer that could have been avoided if this information was held on the registry and passed in the switch file through the registry; and</p>
	<p>4. <b>general:</b> Where a defined term is used within the rules these should be either highlighted, in bold and capitalised or all three. The</p>

<sup>3</sup> It is possible that a wash-up could be required even under a dynamic method if there were disputed switches that were unresolved at the end of the month.

QUESTION	COMMENT
	current draft does not use any of these methods.
<p><b>Q8:</b> Do submitters agree with the funding options for the Proposal? If not, please state your reasons.</p>	<p>Genesis Energy agrees that in order to recover the costs of implementing and administering a central registry the development fee and on-going fee options are a reasonable approach. However the allocation of such fees will be covered in the response to Q9 below.</p>
<p><b>Q9:</b> Do submitters agree with the allocation of costs for the Proposal? If not, please state your reasons.</p>	<p>Genesis Energy would like to understand the reasoning behind why meter owners are not included in the allocation of development fee costs. On the face of it, their exclusion seems arbitrary – meter owners are active participants in the gas market and as such, have a legitimate obligation to bear a fair and reasonable portion of all costs associated with it. Therefore, unless the Gas Industry Company has a strong reasons for excluding meter owners from bearing these costs, Genesis Energy recommends that the Gas Industry Company should apportion <b>both</b> the development and on going fees to all industry participants – be they meter owners, retailers or distributors as all participants will receive benefits from the implementation of a central gas registry.</p> <p>Genesis Energy is also unclear about the specific rationale used by the Gas Industry Company in developing the allocation of costs between industry parties. While on first blush, a 45% retailers, 45% distributors and 10% meter owners does not appear to be wholly unreasonable, Genesis Energy seeks to understand the reasoning for this particular split before being in a position to comment from an informed basis.</p> <p>Genesis Energy does note, however, that the majority of transactions would be incurred by meter owners when updating meter information as the result of a meter change.</p>

QUESTION	COMMENT
<p>Q10: Any other Comments?</p>	<p>Genesis Energy would like to make the following additional comments:</p> <p><b>Development Fees:</b></p> <ol style="list-style-type: none"> <li>1. In order to best manage resources, it is vital that industry participants are advised of the level of the proposed development costs as soon as possible <i>and</i> prior to these costs being incurred; and</li> <li>2. There need to be rigorous contractual controls placed on the service provider to ensure that cost over-runs do not occur unless appropriate (pre-expenditure) sign-off has been obtained. The sign-off process for such costs and the nature of the process (in terms of with whom accountability for such decisions should best lie) also needs to be explored further;</li> </ol> <p><b>Ongoing Fees:</b></p> <ol style="list-style-type: none"> <li>1. Consideration as to the future costs to the industry and what controls should be set in place to ensure that there are only acceptable incremental increases and that the service provider can not hold the industry "to ransom" as such also needs to be given further thought;</li> </ol> <p><b>System Capacity:</b></p> <ol style="list-style-type: none"> <li>1. Paragraph 6.7 of the consultation paper mentions that "in the first instance, managing 30,000 switches per annum, with each switch representing 4 transactions passing through the registry" Genesis Energy would like to raise the point that there seems to have been no consideration to the sheer volume of notifications between the registry and interested parties which may be required not only during a switch but when adding or updating data fields on the registry;</li> </ol> <p><b>Definitions:</b></p> <ol style="list-style-type: none"> <li>1. The definitions should be checked against the Electricity Governance Rules (EGR) to insure that there is no confusion of terms for those participants who operate in both electricity and gas industries;</li> </ol>

QUESTION	COMMENT
<p>Q10 cont ... Any other Comments?</p>	<p><b>Intellectual Property:</b></p> <ol style="list-style-type: none"> <li>1. Genesis Energy would encourage that any contracts between the Service Provider and the Gas Industry Company, acting on behalf of the industry, cover concerns raised at the Gas Industry Company Workshop on Wednesday 21 September 2006 with regards to this point. In particular: <ul style="list-style-type: none"> <li>• Data held in the registry and associated files and notifications must remain the property of the participants; and</li> <li>• The code used to develop the registry also must remain the property of the industry participants or is published for general consumption.</li> </ul> </li> </ol> <p><b>External Access to Gas Registry Data:</b></p> <ol style="list-style-type: none"> <li>1. Genesis Energy agrees that agencies such as the Electricity and Gas Complaints Commission should have 'view-only' access but only if the following conditions are met: <ul style="list-style-type: none"> <li>• that any external party gaining 'view-only' and/or wishing to have reporting functionality contribute towards the costs that they incur on a user pays basis to help control the costs of the participants; and</li> <li>• that existing users' rights (such as access to licenses, for example) are not in any way diminished.</li> </ul> </li> </ol> <p>See also the covering letter for Genesis Energy's comments on the process going forward.</p>