

Extending the Electricity Price Review’s Final Recommendations to the Gas Market – Genesis Energy response

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Question	Genesis response
<p>Q1. Do you support the role of the Consumer Advisory Council being extended to Gas markets for the benefit of residential and small business Gas consumers? If so, when should it occur? What measures should GIC be taking to better engage with of residential and small business Gas consumers?</p>	<p>Genesis supports the role of the Consumer Advisory Council being extended to include gas markets. Although, as the consultation paper notes, there are several areas in which gas and electricity are not similar, there are shared issues in a range of areas where a coordinated approach would be helpful.</p> <p>Many submitters to the EPR mentioned Energy Consumers Australia as a potential model for a New Zealand CAC, and it is noteworthy that ECA’s remit includes gas. Given the CAC is currently in the establishment phase¹, it would be sensible to add provision of gas services to the CAC’s remit now.</p>
<p>Q2. Do you support the extension of the energy hardship initiatives in B1- B6 and B8 to include Gas (please address each separately)? Do you support the extension of the electricity market arrangements on PPDs to Gas?</p>	<p>B1: Establish a cross-sector energy hardship group Genesis supports including gas in the work of the energy hardship group. Energy hardship is typically driven by a range of complex, interrelated, and circumstance-specific factors. It is reasonable to expect that access to and affordability of natural gas for space heating and cooking will be a factor for a not insignificant number of consumers experiencing hardship, and it is therefore logical for the cross-sector group to consider gas/LPG as a factor. Genesis is open to GIC playing a role as part of the cross-sector group.</p> <p>B2: Define energy hardship Genesis supports MBIE developing a “clear and generally accepted definition” of energy hardship, and we understand that this project is more complex than it appears. Genesis considers that it would be difficult to formulate a comprehensive definition of energy hardship without reference to other fuels, especially gas/LPG, that also play a role in meeting consumers’ energy needs. It is therefore logical to consider these fuels in defining the issue.</p> <p>B3: Establish a network of community-level support services to help consumers in hardship Community-level support services already do fantastic work assisting consumers experiencing hardship. In our experience, a key challenge to accessing and benefiting from these services is awareness, and there is limited coordination between groups working in this area. The <i>EnergyMate</i></p>

¹ <https://www.mbie.govt.nz/assets/implementing-the-electricity-price-review-dashboard.pdf>

programme, coordinated by the Electricity Retailers Association, has demonstrated the value in providing wraparound support and advice to consumers, leveraging existing community-level support services. Genesis recommends the cross-sector energy hardship group be tasked with carrying out a stocktake of existing available services as a priority, which can form the basis of an initiative to raise awareness of and access to these services for those who are eligible. This should provide visibility of where gaps are in access to these services and inform a response.

B4: Set up a fund to help households in energy hardship become more energy efficient
Genesis supports this proposal. There is scope to expand on the support already provided through programmes such as EECA's *Warmer Kiwi Homes* initiative.

B5: Offer extra financial support for households in energy hardship
Genesis supports this proposal in principle. Successfully implementing the measures described in B3 and B4 above should provide greater visibility on the scale of the problem and additional financial support required.

B6: Set mandatory standards to protect vulnerable and medically dependent customers
Genesis supports setting mandatory standards to protect vulnerable and medically dependent consumers, and we have been closely involved in the EA's work to refresh the current guidelines. We agree that the issues are different for gas than electricity in several respects, and it is unlikely that simply applying the standards relating to electricity to gas would be effective. Genesis supports GIC's proposal to work with the EA on areas of common interest, and establish whether and to what extent the guidelines can be extended to gas customers. Genesis commends the EA on the process it has run to update the guidelines and would urge the GIC to take a similar approach if it chooses to proceed with introducing a similar regime for gas/LPG. Overall, it is important that any standards for gas/LPG are compatible with those that apply for electricity.

B8: Explore bulk deals for social housing and/or Work and Income clients
Genesis does not object to this proposal in principle, but we consider it would be difficult to implement in practice. If this option is to be pursued, it is logical to include gas when seeking bulk deals. LPG is a more difficult proposition, given the significant logistical challenge that would be presented by servicing customers covered by a bulk arrangement.

	<p>Extension of the electricity market arrangements on PPDs to Gas</p> <p>Genesis does not support this proposal. During the EPR process Genesis consistently made the case that prohibiting PPDs was a concerning intervention equivalent to a form of price regulation, a step which has long been rejected by regulators and officials in the New Zealand electricity market. Although PPD has not been prohibited through regulation or legislation, the expectation has been made clear that any such discounts should reflect only the cost of the actual cost of recovering debt. Accordingly, Genesis undertook a major piece of work to remove PPD and replace it with a cost-reflective late payment fee, while reshaping our offers to ensure customers could access rewards and discounts by exercising choice, if that is valuable to them. It is worth noting that customer feedback on the removal of PPD was overwhelmingly negative, and it is unclear what benefits have arisen as a result.</p> <p>In any case, the removal of PPD from Genesis' electricity offer has been accompanied by the same approach to gas, so whether or not GIC chooses to take this forward our customers will no longer be accessing PPD once our migration of currently-contracted customers is complete. A priority for Genesis, in relation to this and other proposals, is that any intervention in the gas/LPG market is compatible with that in the electricity market. The compliance costs and risk of breach in the event retailers would have to comply with two different sets of rules/instructions is real but entirely avoidable with careful design.</p>
<p>Q3. Do you support the extension of PowerSwitch to include LPG (reticulation and bottles)? Do you support GIC's views on the initiatives in C1–C6 (please address each separately)?</p>	<p>Genesis agrees with the GIC in relation to C1: Merge the Powerswitch and What's My Number websites, and C2: Improve consumer awareness of Powerswitch and Utilities Disputes. While we do not object to inclusion of LPG on Powerswitch, it is a relatively lower priority than ensuring the website accurately reflects the value of various retailers' offers (as distinct from a blunt 'cost' measure), and more accurately reflects the savings available to consumers from different retailers/price plans. Genesis understands that ConsumerNZ, which runs the Powerswitch service, has an extensive workstream underway to improve the usability of and information available through the site. Genesis considers this work should be completed before further products are added.</p> <p>C3: Develop a streamlined way to process customer requests for consumption data Genesis agrees that there are, currently, significant differences between the nature of consumption data held for electricity and gas. However, this gap is closing somewhat. Genesis is undertaking a</p>

mass rollout of gas smart meters which we consider will open up a range of options to consumers concerning how they manage their energy usage and, in time, the services available to them. Genesis would welcome the opportunity for early engagement with GIC to ensure the current arrangements enable consumers to realise the full value of this new technology.

C4: Make distributors offer retailers standard terms for network access

Genesis agrees the current arrangements are working well and there is no strong case for change.

C5: Prohibit saves and win-backs

Genesis strongly disagrees that prohibiting retailers from competing for customers, at any point in the customer journey, is beneficial for consumers. The decision to prevent electricity retailers from persuading customers to stay (or enticing them to return) appears to be driven by three factors:

- a) Customers prepared to switch, either proactively or in response to an offer from a rival competitor, were able to access more competitive rates than those who choose not to exercise choice.
- b) Independent retailers, in particular, objected to acquisition costs that were higher due to acquisitions failing on a customer's receipt of a more appealing offer from their existing provider.
- c) A perceived lack of transparency, because some customers were able to access offers that were not publicly advertised through price comparison websites and similar.

In relation to a), Genesis does not consider the most effective way of ensuring customers benefit from vigorous competition is by restricting the competitive options available to retailers. It is far more logical to direct efforts into ensuring more customers avail themselves of the opportunity to test the market and benefit from doing so, rather than limiting retailers' ability to compete for these customers.

In relation to b), it is not the job of regulators to 'tilt the playing field' to the benefit of a particular subset of the market, or a particular business model. In this case, low cost, small retailers. It has yet to be demonstrated empirically how this is to the benefit of consumers.

In relation to c), it is true that the offers available to customers who choose to switch may not be visible to the market overall. However, responsive offers and services are a function of a highly competitive market, and are common in other markets. Without a clear empirical demonstration of how these restrictions benefit consumers Genesis does not consider there is a case for change.

Genesis has not seen evidence that the prohibition on competing for departing customers in the electricity market has benefited consumers. We would expect that, given this prohibition has existed for several months in the electricity market, any decision to impose similar restrictions on competition in the gas market would be supported by evidence of consumer benefit in the electricity market.

If the GIC chooses to proceed with prohibiting competition for departing and former customers in the gas market, it will be crucial that any such ban is carefully designed to ensure compatibility with the regime in the electricity market. In essence, saves and win-backs in the electricity market have been prohibited through banning contact with departing or former customers, for all but a very limited range of administrative matters.

Genesis does not consider that it would be appropriate to adopt the same approach in the gas market, due to the risk of unintentional non-compliance this would create. For example, Genesis is required to inform customers of any changes in their tariffs that arise as a consequence of shifting provider. This commonly arises in circumstances where dual fuel customers switch away for electricity, but not natural gas. In these situations it is best practice to inform customers that the price they pay for gas supply no longer attracts a dual fuel discount, and will therefore increase. Neglecting to inform customers in this way risks giving rise to bill shock and poor customer outcomes.

The prohibition from contacting customers (with the exception of administrative matters) takes effect from the point at which the 'losing retailer' becomes aware of a customer's intention to switch. This will most commonly occur when the 'losing retailer' receives a switch transfer request. It is reasonable to expect that numerous circumstances will arise in which a retailer becomes aware of a customer's desire to switch electricity provider well before they are aware of a customer's intention to switch gas supplier, due to the misalignment of the registries for electricity and gas (this issue is particularly acute in relation to LPG). Therefore, retailers could inadvertently breach the rules

	<p>in situations were they, entirely legitimately, seek to keep their customers informed of their changing circumstances as a consequence of changing electricity supply.</p> <p>The above example is just one technical challenge for implementing a prohibition on competition for departing customers in the gas market. If GIC elects to proceed with this proposal, Genesis' objections to such a move notwithstanding, we would be eager to work with GIC to ensure the approach to banning this practice is workable and is as simple to comply with as possible.</p> <p>C6: Establish a pilot scheme to help non-switching consumers find better deals Genesis does not consider there is sufficient value in a pilot switching scheme to justify establishing one. We understand the EPR panel's recommendation concerned a similar scheme to the bulk switching initiative trialled in the UK. The New Zealand market can be distinguished from the UK on the basis: (a) consumers have greater trust and confidence in the industry; (b) the level of savings from switching retailer is significantly lower; and (c) New Zealand has a more active switching market, and access to free and independent price switching tools.</p> <p>It is yet to be shown bulk switching delivers long term benefits for consumers. While the UK campaign may have been cited as a success based on take up rates, the impact on competition is yet to be seen and it is yet to be proven if consumers are on a better deal for their own circumstances as a result of the switch. Genesis' view is that C6 is likely to disincentivise customers from engaging effectively in the market longer term, which is at odds with improving meaningful competition in the market overall.</p>
<p>Q4. Do you support GIC's views in respect of the initiatives in D1 to D4 (please address each separately)?</p>	<p>D1: Improve availability of wholesale electricity and gas market information D2: Introduce mandatory market-making obligations D3: Make generator-retailers release information about profitability of their retailing activities D4: Monitor contact prices and generation costs more closely</p> <p>D1 is already well underway in the gas and electricity markets. Genesis supports greater transparency where this is practicable, and we have engaged closely in both projects. Both the EA and GIC have taken a highly consultative and pragmatic approach, which is appreciated.</p>

	<p>Genesis agrees the other three recommendations in this section are not directly applicable to the gas market.</p>
<p>Q5. Do you support GIC's initial view to not extend the initiatives in E1-E4 to include Gas (please address each separately)?</p>	<p>E1: Issue a government policy statement on transmission pricing E2: Issue a government policy statement on distribution pricing E3: Ensure distributors have access to smart meter data on reasonable terms E4: Give the Commerce Commission more powers to regulate distributors</p> <p>Genesis agrees that there is either no or insufficiently strong justification for extending these initiatives in the gas market.</p> <p>However, as set out in relation to C3 above, the rollout of gas smart meters is likely to give rise to new arrangements and the desire to offer new services to natural gas customers. It is reasonable to expect issues around data access to arise. Although it is premature to introduce prescriptive rules around data access as anticipated by E3, Genesis considers there would be value in GIC facilitating discussions among interested parties concerning the data and service issues and opportunities that will be presented by increasing penetration of gas smart meters.</p>
<p>Q6. Do you support GIC's initial view to not extend the initiatives in F1-F4 to include Gas (please address each separately)?</p>	<p>F1: Give the Electricity Authority clearer, more flexible powers to regulate network access for distributed energy services F2: Give the Electricity Authority an explicit consumer protection function F3: Update the Electricity Authority's compliance framework and strengthen its information gathering powers F4: Phase out low fixed charge tariff regulations</p> <p>Genesis agrees with GIC's initial view that initiatives F1-F4 need not be extended to the gas market.</p> <p>We note GIC's initial view that there is a case for strengthening the co-regulator's information gathering powers. While we do not necessarily oppose this suggestion, we would expect any move to increase GIC's powers would be preceded by an evidence-based case being made to support the proposal. Genesis, as a recipient of information requests from GIC, has typically made every effort to comply on a voluntary basis and we therefore are not convinced a strengthening of powers is necessary. However, if GIC's ability to discharge its functions is being frustrated by the refusal of information requests by participants then it is conceivable that a strengthening of information gathering powers is justified.</p>

<p>Q7. Do you support the extension of the initiatives in G1-G4 to include Gas (please address each separately)?</p>	<p>G1: Encourage more energy sector innovation G2: Examine security and resilience of electricity supply G3: Explore new institutional arrangements for energy policy regulation G4: Improve the energy efficiency of new and existing buildings</p> <p>Genesis agrees with GIC’s support for these initiatives. Indeed, it is common sense to consider the interplay between gas and electricity under G1, G2, and G4. Furthermore, Genesis considers there is an important role for gas and LPG in meeting the objectives of these initiatives and it would be a mistake for this to be overlooked.</p> <p>During the EPR consultation process, G3 was interpreted to concern “alternative ways for government agencies to co-ordinate energy policies, regulations and programmes”². Accordingly, we were surprised when the Government released a Cabinet Paper³ containing the following proposal under ‘low-impact options’ in relation to recommendation G3:</p> <p style="text-align: center;"><i>Also of interest as a low-impact option is whether policy levers for the Minister of Energy and Resources are warranted on the grounds of market failure. A possible option is the provision of emergency powers to reallocate electricity or gas in situations of acute electricity or gas shortage.</i></p> <p>Genesis does not consider this to be a ‘low-impact option’, and in fact this would represent an extraordinary power to intervene in the dynamic energy markets, potentially in conflict with complex contractual arrangements between participants. Genesis does not support this suggestion. This proposal is sufficiently high impact to warrant its own entirely separate consultation process, rather than appear as an output of the EPR.</p> <p>Genesis considers that, generally speaking, the current institutional arrangements governing the energy sector are functioning well. Coordination between regulators (GIC and EA in particular)</p>
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² Electricity Price Review: Final Report. G3, p66 <https://www.mbie.govt.nz/assets/electricity-price-review-final-report.pdf>

³ <https://www.mbie.govt.nz/assets/progressing-the-electricity-price-reviews-recommendations.pdf>

	supports efficient and effective regulation, and Genesis commends GIC and EA for the greater alignment that both agencies have demonstrated recently.
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