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Dear Ian

**Submission on Castalia's Discussion Paper
on Gas Retailer Insolvency**

Introduction

1. Vector Limited ("Vector") welcomes the opportunity to make this submission on Castalia Strategic Advisors' *Discussion Paper on Gas Retailer Insolvency* ("the Castalia Report"), released for consultation by the Gas Industry Company ("GIC") on 22 June 2012. Vector also appreciates the engagement by the GIC and Castalia with industry participants on this matter at the Gas Governance Retail Forum on 26 June 2012. Responses to the GIC's questions are provided in the Appendix.
2. Some parts of this submission, marked [...] **VCI**, are confidential and must not be released. Vector has accordingly provided both confidential and public versions of this submission.
3. Vector's contact person for this submission is:

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Market failures during gas retailer insolvencies

4. Vector agrees with the Castalia Report that gas retailer insolvencies create market failures and risks over and above those in most other markets. A critical difference between gas (and electricity) and other markets is the restriction on cessation of

supply for non-payment because it would not be practicable; disconnecting customers *en masse* would be highly costly and time-consuming.

5. In addition, the essential service nature of electricity (and to a lesser extent gas), as well as health and safety issues, would make *en masse* disconnection of customers socially and politically unacceptable.
6. [
- 7.
- 8.
9. **] VCI** Those businesses would put in place safeguards to ensure this did not happen. Firms that are readily able to cease supply upon non-payment may simply be able to rely on this as a safeguard. However, distributors cannot just cease supply and therefore need other mechanisms such as prudential requirements.
10. Gas retailer insolvencies also give rise to other risks:
 - a. distributors' inability to recover (or remote possibility of recovering) the cost of distributing to 'orphaned' customers who continue to use gas and the cost of disconnecting them *en masse*. Gas pipeline businesses subject to price regulation under Part 4 of the Commerce Act 1986 have very limited ability to recover the costs of a gas retailer insolvency through their prices;
 - b. increased costs of Unaccounted-for-Gas ("UFG") that are socialised amongst industry participants;
 - c. pipeline balancing costs that are also socialised amongst industry participants;

- d. the costs borne by 'third' parties, for example, meter owners who had to conduct site visits to check the connection status of their meters; and
 - e. additional credit risk.
11. These 'residual' risks are more pronounced in (and some are unique to) gas retailer insolvencies. As indicated in the Castalia Report, there are no provisions in standard insolvency legislation and regulations that specifically and sufficiently address these risks.
 12. This reinforces Vector's view, expressed in its submission of April 2011 on the Gas Governance (Insolvent Retailers) Regulations 2010, that there is a case for the development of permanent regulations to address future gas retailer insolvencies. The Castalia Report itself alludes to the fact that sector-specific intervention is not uncommon even in markets more competitive than the gas market, such as banking and insurance.

Industry participants' incentives

13. Vector generally agrees with the Castalia Report's assessment of various parties' incentives during a gas retailer insolvency, which reflect their respective commercial interests. The Castalia Report, however, fails to consider the shared incentive that was apparently critical during the E-Gas insolvency – that of providing greater certainty and restoring market confidence during a highly stressful and disruptive period. This was reflected by industry participants' willingness to come to the table with the GIC and other parties to urgently develop regulations and resolve the matter as expeditiously and efficiently as possible.
14. Vector disagrees with the Castalia Report's assessment that the reaction from industry participants regarding gas retailer insolvency is "varied". The submissions of April 2011 to the GIC reflected a widespread desire to have more enduring arrangements to address future gas retailer insolvencies. As a matter of preference, industry participants seek commercial rather than regulatory solutions in the first instance, even in circumstances where invoking existing regulations is an option. This is one of those rare cases where participants' positions are aligned in seeking some form of backstop regulatory intervention.
15. While the GIC can make backstop regulations under urgency by necessity, as was the case during the E-Gas insolvency, developing permanent regulations ensure they are considered without undue haste and are subject to meaningful consultation, making them more robust than otherwise. The development of the "rules of the game" up front would provide the certainty and confidence industry participants desire.

16. Only in the absence of any efficiency gains can the GIC be certain that considering regulation, in this case, is unwarranted.

Permanent insolvency arrangements

17. The development of permanent retailer insolvency regulations is warranted on the grounds that:
 - a. Regulations would address the additional market failures that are unique to or more pronounced in gas (and electricity) retailer insolvencies. The existence of backstop regulations means there would be a more efficient alternative should it be required.
 - b. The ability of parties to address the residual risks through bilateral contracts is constrained by multilateral contractual arrangements in the gas industry. The actions that transmission system operators ("TSOs") and retailers can take are constrained by provisions in the Vector Transmission Code and the Maui Pipeline Operating Code.
 - c. The regulations would be tailored to address the specific residual risks in gas retailer insolvencies. Vector's response to Q10 in the Appendix recommends specific provisions that would address these risks.
 - d. The regulations, as a backstop mechanism, will not interfere with the normal insolvency process (which by itself, is already a 'managed' process, ie an intervention in the market).
 - e. The benefits from ensuring greater efficiency and providing market confidence outweigh the very minimal costs of developing and maintaining insolvency regulations. Industry participants have clearly expressed this preference.

Link with the Electricity Authority's workstream

18. Vector notes the Castalia Report's view that "it is not necessary or even likely that electricity market policies ought to mirror gas market policies, and vice-versa" and the GIC's statement that "a unified policy response may not be required". Vector, however, reiterates its view, expressed in its April 2011 submission, that this work should be aligned with the arrangements being developed for the electricity sector, to the extent possible.
19. Vector believes the E-Gas insolvency would have created greater market uncertainty and would have been more complex to resolve had E-Gas been a dual-fuel provider. More consistent arrangements across the electricity and gas sectors would streamline decision making, enable the efficient sharing and

dissemination of information (for example, by having a single spokesperson for both regulators), and reduce confusion. This would mitigate the adverse impacts and reduce the costs of an undesired event such as a retailer insolvency for industry and customers.

20. Vector believes that gas and electricity retailer insolvency should be dealt with jointly. It is not difficult to envisage a number of scenarios arising from separate regulatory regimes for electricity and gas. For example:
- a. an energy retailer that is in financial difficulty (not paying its gas and/or electricity distribution bills, etc) could have its electricity customers transferred but retain its gas customers (if gas regulation is more liberal);
 - b. similarly, if the gas retailer insolvency rules are more liberal (lenient towards non-paying gas retailers), energy retailers may have less incentive to pay their gas pipeline charges than their electricity line charges; and
 - c. dual-fuel customers may find themselves in the confusing situation where they are transferred to another retailer for one energy service (eg electricity) but remain with the insolvent retailer for the other (eg gas).
21. These types of scenarios would be undesirable. Vector urges the GIC and the Electricity Authority to work closely together to minimise these potential problems. Vector acknowledges though that they are largely a consequence of having separate regulators in the electricity and gas industries, with different sets of legislation (Gas Act 1992 and Electricity Industry Act 2010).

Yours sincerely



Bruce Girdwood
Manager Regulatory Affairs

Appendix: Vector’s responses to specific questions

QUESTION	VECTOR’S COMMENTS
<p>Q1: Do you have any comments or concerns on the summary of standard insolvency arrangements provided in this section?</p>	<p><i>Residual risks</i></p> <p>Vector agrees with the Castalia Report that while standard insolvency arrangements clearly define the rights of different parties, there are additional or residual risks created in the gas market when a gas retailer becomes insolvent.</p> <p>The Castalia Report identifies that the standard benchmarks for insolvency may break down (ie there are externalities over and above standard insolvencies) in the case of gas retailer insolvencies due to the presence of:</p> <ol style="list-style-type: none"> 1. monopoly network characteristics; 2. products or services that are considered to be “essential”, ie where a normal amount of customer inconvenience will not be tolerated. While there is debate whether gas is an “essential” or a “discretionary” fuel, the use of gas by some users can definitely be considered essential, for example, its use by critical care services and where interrupted supply would result in critical environmental damage. Gas is also increasingly being relied on for water heating; and 3. systemic consequences. Vector agrees with the Castalia Report that the interrelated nature of industry participants means it is not possible to manage consequences solely through bilateral contracts. <p>Vector agrees that the above clearly causes additional market failures (eg increased moral hazards) and risks in the case of gas retailer insolvencies. These are manifested through:</p> <ol style="list-style-type: none"> 1. the cost of supply to orphaned customers who continue to use gas and the cost of disconnecting them <i>en masse</i>, which gas pipeline businesses regulated under Part 4 of the Commerce Act have very limited ability to recover. Vector agrees with the scenario described by the Castalia Report that “[w]hen a retailer becomes insolvent, distributors

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	<p>and transmission providers are unlikely to be paid for continuing to provide capacity”;</p> <ol style="list-style-type: none"> 2. the increased costs of Unaccounted-for-Gas (“UFG”) that are socialised amongst market participants; 3. pipeline balancing costs (and risk of subsequent disputes). Vector agrees with the Castalia Report that “in a situation where the company has been dissolved, it is likely that the cost of the balancing gas would be socialised as UFG” and that “[t]his creates tension among remaining retailers who are saddled with the costs especially as UFG was not intended to be used for this purpose”; 4. the costs borne by ‘third’ parties such as meter service providers who had to visit customers’ premises to check the connection status of their meters; and 5. additional credit risk. <p><i>Form of contracting and other constraints</i></p> <p>While Vector agrees with the Castalia Report that “the gas market is made up of a series of bilateral contracts that include risk management provisions...”, the Castalia Report fails to highlight existing multilateral contractual arrangements that constrain industry participants’ ability to manage insolvency risks bilaterally. For example, parties to the Vector Transmission Code (“VTC”) could be liable for the balancing costs of other parties’ actions. Initiating VTC amendments can be costly and time-consuming, with uncertain outcomes, as they require agreement by 75% of the retailers/shippers.</p> <p>The Castalia Report points out that there is little potential for spot price shocks in gas, unlike in electricity. Vector does not totally agree, as critical contingencies in the gas sector could just as well have a similar impact on the supply, and potentially on the price, of gas (or the cost of procuring alternative fuel sources).</p> <p>Vector agrees with the Castalia Report that well-functioning switching arrangements are a good thing, but considers these to be insufficient to address the residual risks identified above.</p>

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	<p><i>Sector-specific intervention</i></p> <p>The presence of specific interventions in sectors such as banking and insurance, provided as examples in the Castalia Report, suggests they are not uncommonly used in addressing sector-specific risks. As identified by the Castalia Report, interventions take place “when parties other than shareholders and creditors are substantially affected by the insolvency”.</p> <p>The causers of the identified residual risks in gas retailer insolvencies do not bear the costs of their actions. There is a compelling case for sector-specific intervention where such intervention would mitigate these residual risks, for example, by ensuring that subsequent processes are efficient and do not create more market distortions, or correct these distortions (even if only to some extent). Our response to Q10 recommends specific provisions that could address some of these inefficiencies.</p> <p>Vector disagrees with the Castalia Report that “responses from industry participants varied” on how to approach retailer insolvencies. The outcome of the GIC’s April 2011 consultation clearly reflected an overwhelming desire by industry participants for more enduring insolvency arrangements that would ensure the process would be resolved as smoothly as possible, with minimal costs. This would provide greater certainty and confidence to the market.</p> <p>As a matter of preference, industry participants do not seek to be regulated and would explore commercial solutions in the first instance, even in circumstances where invoking existing regulations is an option. The issue of retailer insolvency is one of those rare cases where there is overwhelming desire by industry participants for greater certainty and predictability during a highly disruptive event.</p> <p>While Vector agrees with the Castalia Report that retailer insolvencies are rare, there is no reason why the industry and the GIC could not ensure that residual risks created by these events are more permanently addressed (and considered without haste), to quickly restore market confidence when they occur. This is desirable given that the development of these arrangements would not require significant additional costs, and once established, would require very little to maintain.</p>

QUESTION	VECTOR'S COMMENTS
<p>Q2: Do you have any comments on the summary of physical and contractual characteristics of the New Zealand gas market set out above?</p>	<p>Vector agrees with the Castalia Report that "the supply of gas to customers has a physical path that differs from the contractual relationships used to provide services, allocate risks, and ensure payment".</p> <p>Vector further agrees that the "processes for reconciling gas consumption and ensuring that gas pipelines remain in balance...create unique industry dynamics". This specific feature of the gas market could lead to additional spill-over effects that, as indicated in our response to Q1, would necessitate sector-specific intervention.</p> <p>Page 10, first bullet, 3rd sentence should be amended, as follows: "...may contain "take or pay" provisions for maximum MINIMUM demand quantities..."</p>
<p>Q3: Are you aware of any reason(s) why a gas retailer may become insolvent in addition to those mentioned in this section?</p>	<p>In addition to the reasons identified in the Castalia Report, and as have occurred in many other industries, gas retailers could also become insolvent due to:</p> <ol style="list-style-type: none"> 1. poor business judgments; 2. non-compliance with existing regulations (resulting in financial penalties or litigation); 3. company mismanagement; or 4. fraudulent activities.
<p>Q4: Are there other likely scenarios of how a gas retailer insolvency might play out that have not been discussed above?</p>	<p><i>Prudential requirements</i></p> <p>While the Castalia Report states that "prudential requirements of around three-months provide <u>some</u> protection for gas distributors to recover on-going costs" (emphasis added), three months would be insufficient to provide full protection. Taking into account billing cycles, the retailer would have been two months in default by the time gas pipeline businesses can take action. Vector considers that prudential requirements of six months would be more appropriate.</p>

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	<p>Vector recommends that the independent assessment of gas distribution contracts, which the GIC intends to commission in early 2013, ensure that distribution contracts sufficiently provide for the above risk.</p> <p><i>Transfer of customers</i></p> <p>Vector's gas distribution business has had first-hand experience of the impact of the E-Gas liquidation. The process of addressing orphaned customers was lengthier and costlier than is generally reflected in the Castalia Report. Vector had to contact the affected customers (requiring site visits in some cases), explain their options, and persuade them to change retailers.</p> <p>As described in Vector's submission of March 2012 on retailer default to the Retail Advisory Group of the Electricity Authority:</p> <p style="padding-left: 40px;">...there were customers on the Vector network that were not purchased by Nova as they were viewed as being unprofitable. Vector was then required to enter into a lengthy process of personally contacting and visiting each one to persuade them to change retailers. This took time, during which the customers continued to use gas.</p> <p style="padding-left: 40px;">...</p> <p style="padding-left: 40px;">Further, Vector originally believed all customers switched to the purchaser after 42 days, except those that Nova considered unprofitable. Later, after conducting a spot check, we discovered that further customers were actively consuming gas but had been considered inactive by E-Gas. It took Vector several months to follow-up with a further 167 customers and ensure all of these customers were switched to a new retailer or had stopped using gas. This type of situation is relatively more likely to arise with insolvent retailers as they are the retailers most likely to have inefficient systems which allow customers to use energy without being billed.</p> <p><i>Meter service providers</i></p> <p>In addition to transmission system operators ("TSOs"), distributors and retailers, Vector would include meter service providers amongst those who suffer from retailer non-payment.</p> <p>Vector agrees with the Castalia Report's statement that there is "some uncertainty about the rights of distributors to enter customer premises to read meters and process switches". This equally applies to meter service providers.</p>

QUESTION	VECTOR'S COMMENTS
	<p>Vector recommends that, in addition to prudential requirements, the GIC's assessment of distribution contracts also ensure that the contracts provide for the ability of distributors and meter owners to enter the premises of an insolvent retailer's customers for the purpose of disconnection or reconnection, or ensuring safety.</p> <p><i>Cost recovery</i></p> <p>In workably competitive markets, costs imposed on parties as a result of retailer insolvency may be able to be recovered through their pricing mechanisms. This is not the case for gas pipeline businesses that are subject to default price path ("DPP") under Part 4 of the Commerce Act 1986. Under a DPP, a distributor may not be able to increase its prices in subsequent regulatory periods to offset losses from retailer insolvency.</p> <p>While the distributor could alternatively apply for a customised price path ("CPP") and make the case to the Commerce Commission to include an allowance for any future bad debt, this would not allow for the recovery of costs already incurred. There is also no certainty that a provision for bad debt would be approved as part of a CPP application as it would be very difficult to demonstrate with the necessary degree of robustness what the bad debt costs to the company would be over the CPP period.</p> <p>A CPP, which involves the Commerce Commission reviewing the distributor's business, is a time-consuming and costly undertaking. The gas distributor or TSO is not guaranteed a better outcome under a CPP than under a DPP. Once applied for, regulated businesses are precluded from making another CPP application for the rest of the regulatory period. The CPP is not a suitable mechanism for addressing bad debt risk. As references to consultation papers on the underlying policy and the relevant Parliamentary debates show, the intention of Parliament was that CPPs would mainly be used to fund "step-changes" in investment by a regulated business.¹</p>

¹ *Review of Regulatory Control Provisions under the Commerce Act 1986: Discussion Document*, Ministry of Economic Development, April 2007, paragraph 171. Speech of Lianne Dalziel, Minister of Commerce, First Reading Debate on Commerce Amendment Bill, Parliamentary Debates (Hansard) for Thursday, 10 March 2008.

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<p>Q5: Do you agree with the description of customers' perceptions of the risk of insolvency, and the likely customer experience when their retailer becomes insolvent?</p>	<p>Vector agrees with the Castalia Report that the automatic disconnection of customers during a retailer insolvency is unlikely. Vector also agrees that the "time involved in disconnecting all customers of the insolvent retailer has the potential to impose large costs on the distributor".</p> <p>Vector further agrees that "[d]isconnecting customers may also generate negative perceptions of gas as a viable energy source", which would give rise to the "...prospect that retailer default may result in...damage to the credibility of the industry".</p> <p>In the case of the E-Gas insolvency, Vector understands that E-Gas customers received a letter from the liquidator effectively stating they would be disconnected in four days if they did not find a new retailer, and that some of the larger customers felt they were given little choice in their gas supplier.²</p> <p>The limited ability to disconnect customers <i>en masse</i> for the above reasons is an additional risk that gas distributors and meter service providers face. In contrast, businesses in workably competitive markets can easily cease supply without significant financial repercussions.</p> <p>Despite the above reasons, gas distributors should not be incentivised to disconnect customers as a matter of principle. Permanent arrangements that ensure the efficient transfer of an insolvent retailer's customers to another retailer would diminish, if not, remove any incentive to disconnect. For customers, the risk of uncertainty is less magnified if such arrangements are in place.</p>
<p>Q6: Do you agree with this discussion of the incentives that apply in an insolvency event?</p>	<p>While the Castalia Report generally captures the incentives of various parties during a retailer insolvency, it does not sufficiently highlight that it is a highly stressful and disruptive period, where events could transpire very quickly. Decisions are made in a less considered and less informed manner than under 'business as usual' circumstances.</p> <p>As experienced during the E-Gas insolvency and expressed in the April 2011 submissions to the GIC, many parties shared the incentive of addressing the issue as expeditiously as</p>

² <http://www.vector.co.nz/sites/vector.co.nz/files/Vector%20submission%20-%20RAG%20Retailer%20default%20situations%20-%20March%202012.pdf>, page 6.

QUESTION	VECTOR'S COMMENTS
	<p>possible at minimum cost. Every day that the insolvency was not resolved was costing them. The parties' desire for urgent resolution and active engagement with the GIC and other market participants during the event made the development of the Gas (Insolvent Retailer) Regulations 2010 under urgency possible.</p> <p>TSOs have the additional incentive to minimise transmission costs; and TSOs and retailers, the incentive to minimise the costs of UFG.</p> <p>The Government, regulators, and consumers also have the incentive to restore normalcy in the market as expeditiously as possible.</p> <p>Vector disagrees with the Castalia Report's statement that "[t]he gas distributor should be able to recover the costs of subsequent reconnections, although possibly not the initial disconnection". As indicated in our response to Q4, the ability of gas pipeline businesses regulated under Part 4 of the Commerce Act to recover insolvency costs is limited.</p>
<p>Q7: Do you agree with the market failures identified?</p>	<p>Vector strongly agrees with the Castalia Report that "standard insolvency arrangements may not achieve all of the features of efficient markets when a gas retailer becomes insolvent". The E-Gas insolvency illustrated that other gas market participants had very limited opportunities to manage the residual risks and significant costs arising from the actions of the insolvent party, including the ability to prevent those costs from escalating.</p> <p>In particular, gas distributors face ongoing exposure to credit risk during an insolvency which businesses in workably competitive markets do not normally face. As stated above, a gas distributor cannot simply cut off supply to the insolvent retailer as this would effectively require <i>en masse</i> disconnection of that retailer's customers.</p> <p>Vector argues that residual market failures that cannot be addressed through standard insolvency legislation or regulations should be resolved through sector-specific intervention or regulations.</p>

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<p>Q8: Do you agree that the market failures identified will only eventuate if an insolvency practitioner disclaims customer contracts or if an acquiring retailer does not acquire the whole customer base in a sale process?</p>	<p>The residual market failures and risks identified in the Castalia Report are likely to eventuate when customer contracts are disclaimed or customers are not acquired by the recipient retailer.</p> <p>Vector identified the same risks in its April 2011 submission to the GIC. To address these risks, Vector recommended the development of permanent regulations as backstop arrangements in the event that a sale does not eventuate. The main purpose of said regulations would be to enable the efficient transfer of orphaned customers and minimise the costs this would otherwise impose on industry participants and ultimately, customers.</p> <p>Vector maintains this view.</p>
<p>Q9: Do you agree that contracts provide some ability for gas industry participants to manage the costs that they might bear if their counterparty becomes insolvent?</p>	<p>Vector agrees that commercial contracts provide some ability for parties to manage the costs arising from retailer insolvencies, but only to a certain extent. As indicated above, multilateral contracts and other existing arrangements limit parties' ability to manage the residual risks identified in the Castalia Report.</p> <p>The residual risk of increased UFG is socialised across industry participants through the downstream reconciliation system, which is primarily governed by the Gas (Downstream Reconciliation) Rules 2008 and the Gas Governance (Compliance) Regulations 2008.</p> <p>Industry participants also have obligations under the VTC and Maui Pipeline Operating Code ("MPOC") which constrain their actions, to some extent.</p> <p>For the reason stated in our response to Q4, Vector considers prudential requirements of six months (rather than three months) to be more appropriate.</p> <p>Vector recommends that the GIC's independent assessment of distribution contracts in early 2013 take into consideration the ability of contracts to address some of the above issues. These would include the appropriate level of prudential requirements and the ability of distributors and meter service providers to enter the premises of an insolvent retailer's customers.</p>

QUESTION	VECTOR'S COMMENTS
<p>Q10</p> <p>Based on the issues discussed above and for the market failures identified, do you consider that there is a need for regulatory intervention beyond using the urgent regulation-making powers in the Gas Act?</p>	<p>Vector considers there is a need for regulatory intervention beyond those provided in urgent regulation-making powers in the Gas Act 1992, to address the residual risks faced by businesses across the gas supply chain in the event of a retailer insolvency.</p> <p><i>Backstop regulations</i></p> <p>In particular, arrangements that ensure the efficient transfer of an insolvent retailer's customers to another retailer would address the issue of orphaned customers that is proven to exist in the gas market. Such arrangements would ensure that costs are allocated to causers and recovered, to the extent possible.</p> <p>Vector believes the benefits of developing permanent insolvency regulations would certainly outweigh the costs, which would be minimal. As backstop regulations, they would not interfere with the insolvency process and should not be intended to, but would ensure an efficient transfer of customers should a sale not eventuate. They would also create greater certainty for retailers and other industry participants.</p> <p>While backstop regulations may not be used for every case of retailer insolvency, or may never be, the confidence and predictability they provide to industry participants and customers would make their development worthwhile. This shared incentive was clearly exemplified by market participants' cooperative behaviour during the E-Gas liquidation, and widely expressed in the April 2011 submissions.</p> <p>Importantly, the development of permanent regulations would ensure that the regulations are robust, as they would be subject to meaningful consultation and would be more considered than under urgency.</p> <p>Vector considers the additional cost to the GIC of developing permanent insolvency regulations would not be significant and would not require a new work stream or project. The GIC and industry would not be starting from scratch; the insolvency regulations developed during the E-Gas liquidation could serve as a starting point for this work. Once permanent insolvency regulations are established, there would be very little ongoing costs.</p>

QUESTION	VECTOR'S COMMENTS
	<p data-bbox="728 277 1464 309"><i>Meeting the Castalia Report's thresholds for regulation</i></p> <p data-bbox="728 344 2004 405">Vector considers the development of permanent insolvency regulations would meet the thresholds for regulation suggested by the Castalia Report, in the sense that:</p> <ol data-bbox="779 440 2004 995" style="list-style-type: none"> <li data-bbox="779 440 2004 501">1. Regulations would address the residual risks that are unique or more pronounced in gas retailer insolvencies. <li data-bbox="779 536 2004 667">2. The ability of parties to address the residual risks through bilateral contracts is constrained by multilateral contractual arrangements in the gas sector. As indicated in our response to Q1, the actions that TSOs and retailers can take are constrained by provisions in the VTC and MPOC. <li data-bbox="779 702 2004 801">3. The regulations would be tailored to address the specific residual risks and inefficiencies in gas retailer insolvencies. Vector recommends below some provisions that could be considered in the development of permanent insolvency regulations. <li data-bbox="779 836 2004 896">4. The backstop regulations will not interfere with the normal insolvency process (which by itself, is already a 'managed' process, ie an intervention in the market). <li data-bbox="779 932 2004 995">5. The benefits of having regulations aimed to mitigate market distortions and restore confidence outweigh the minimal costs involved (as pointed out above). <p data-bbox="728 1027 1077 1059"><i>Recommended provisions</i></p> <p data-bbox="728 1094 2004 1251">Any development of permanent retailer insolvency regulations should consider the following provisions (some of which Vector also recommended in a letter to the Electricity Authority Chief Executive in May 2011). These would ensure a more efficient transfer of customers and improve the availability of information to industry participants, providing the certainty they desire during the insolvency period:</p> <ol data-bbox="779 1286 2004 1382" style="list-style-type: none"> <li data-bbox="779 1286 2004 1382">1. Provision that any or all customers are switched to alternative retailers with effect from the date of receivership/liquidation. This is beneficial to both retailers and distributors as retailers will acquire the right to invoice the customer for charges from that date

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	<p>instead of those customers continuing to take gas and potentially not paying for that gas. Customers would also have no incentive to delay switching retailers to reduce their gas bills.</p> <ol style="list-style-type: none"> 2. Provision that inactive customers are also allocated a new retailer on the basis that sometimes the Registry records are not correct and inactive customers are still consuming gas. 3. A requirement for the GIC to acquire information, including meter reading information, from the insolvent retailer and pass this information on to whichever industry participants require it to give effect to the transfer of customers. 4. Retaining the provision in the Gas (Insolvent Retailer) Regulations 2010 requiring recipient retailers to have at least 10% of the number of ICPs in the Gas Registry. 5. Clarification of the status of the transferred customer contract (including contract terms), and provision to allow for a transitional period, during which customers can switch to an alternative retailer, and after which the recipient retailer can put the customers onto the recipient retailer's contract. 6. Clarification of what happens if a customer switches before the transfer date but the switch has not been completed. 7. Clarification of the status of contracts that a liquidator has disclaimed. 8. Provision allowing asset owners such as meter owners to access a property to recover equipment, check connections and, if required, disconnect sites that are not active. 9. Recognition of transmission capacity restraints and VTC obligations, and gas supply constraints/risks, and the necessary provisions to address these constraints. The insolvent retailer's customers could be transferred to a retailer that could not meet or fully meet the supply requirements of these customers.