



## **Switching and Compliance**

***Powerco's submission on the  
Decision Paper to Gas Industry Company  
February 2007***

## **1. Introduction**

- 1.1. The GIC has sought submissions on three specific matters relating to the establishment of a central gas switching registry as it proceeds to recommend to the Minister of Energy the establishment of rules under the Gas Act. In doing so the GIC in its decision paper has communicated its position on a number of other matters that were the subject of earlier stakeholder submissions.
  
- 1.2. This response is divided into two sections. The first addresses matters that continue to be of concern relating to the position adopted by the GIC in the decision it has taken to proceed with a switching registry; the first section generally follows the order as presented in the GIC's paper. The second section is Powerco's responses to the GIC posed questions.

## 2. Executive summary

### ***Registry Development Costs***

- 2.1. A net consumer benefit is unlikely to eventuate from the registry. For Powerco's networks no material savings will be generated by the registry development. We expect the position is the same for all or most other gas network owners. All existing business systems – asset management and commercial – continue to be required and Powerco's network operating costs may increase due to the need to develop and manage system interfaces with the switching registry.
- 2.2. The GIC should ensure that for those stakeholders subject to Commerce Commission control regulatory arrangements are established to permit the recovery of registry costs. An alternative would be for the GIC to allocate registry costs to retailers thereby avoiding Commerce Commission related regulatory considerations.
- 2.3. The GIC is asked to address the required regulatory pass-through arrangements within its intended approach to Government for regulatory changes and consult with effected network owners and metering service providers.

### ***National Energy Registry***

- 2.4. The discussion paper contains certain assumptions of the potential issues with a combined registry, however this option has been ruled out without conducting sound analysis of its suitability. Powerco considers the option of a National Energy Registry should be further investigated and a feasibility study conducted.

### ***Compliance Regulation requirement***

- 2.5. The alternative to regulation, of establishing whether each stakeholder would bind themselves to a specific industry governed compliance arrangement, that reasonably meets the GIC's needs, should be determined before proceeding with the proposed regulatory solution.

### ***Application of Rules – Competition considerations***

- 2.6. Networks should not be subjected to the proposed compliance rules in respect to any complaints initiated by a distributor (or parties associated with such distributors) that are not themselves subject to the rules.

### ***Commercially sensitive information excluded***

- 2.7. With the effective exclusion of Todd network customers from inclusion in the registry and its compliance requirements, it is essential that the Rules exclude confidential price and other sensitive information as reasonably determined by network owners participating in the registry.

### ***Liability Cap for registry operator***

- 2.8. The liability cap of the registry operator should be the same as that that applies to the electricity registry operator

### ***ICP parameters maintained by Distributors***

As stated in previous submissions, Powerco would like reiterate our position in relation to the below fields labelled for distributor population:

### 2.9. ICP altitude

ICP altitude should continue to be populated by the first retailer of record (i.e. status quo continues). As discussed with retailers, there are many scales for attributing altitude to an ICP and there needs to be industry consensus as to which scale to use otherwise incorrect billing will occur.

### 2.10. Load Shedding Category

Individual ICP load shedding data should continue to be maintained by the retailer who has the contractual capacity to cease supply to individual customers in situations where gas supply curtailment to a network is imminent or occurring.

### 2.11 Maximum Hourly Quantity

MHQ is primarily a function of the GMS installation and should be maintained by meter service providers, not network owners.

### **Data cleansing**

2.12 Powerco considers that the time period in which reconciliations between registry and the master record are being undertaken are too short. Where ICP records differ it is conceivable that site visits will need to be arranged to confirm the physical status of the connection. This will take time to investigate. Powerco recommends that in order to populate the registry accurately then a lead time of 3 - 4 months is needed along with a data cleansing plan specifying the parameters which should be agreed.

### 3 Consultation on Proposal for Switching Rules

#### The importance of registry and the switching rules

- 3.1 Importance has been placed on the registry improving the accuracy of the reconciliation process by facilitating more prompt customer switching. In terms of the data management issues associated with reconciliation processes, switching is a relatively minor contributor to data accuracy issues. The major data quality issues are of recent origin whereas the existing switching notification arrangements have operated unchanged since 1999; reconciliation processes already include correction arrangements for time delayed switch notifications.
- 3.2 While switching times should be improved under the GIC's registry development, this does not represent a major benefit and is one that accrues to retailers only.

#### Cost Benefit Analysis

- 3.3 The balance of the costs and benefits of a registry development and the assessment of those inputs as been a major focus of the GIC's consultation work streams. Most stakeholders remain concerned at the uncertainty of the costs that will be incurred in developing and implementing the registry and to varying degrees, disagree with the GIC's assessment.
- 3.4 The GIC considers "it is not feasible to have the Minister of Energy approve rules [Regulations] that are conditional on final costs" and has decided to proceed with a central registry "on the basis that it is highly likely to yield a net benefit to consumers".
- 3.5 **A net consumer benefit is unlikely to eventuate from the registry. For Powerco's networks no material savings will be generated by the registry development. We expect the position is the same for all or most other gas network owners. All existing business systems – asset management and commercial – continue to be required and Powerco's network operating costs may increase due to the need to develop and manage system interfaces with the switching registry.**
- 3.6 Powerco recognises that perhaps from a wider new Zealand-wide infrastructure overview or perspective, the existence of a gas registry is desirable. However given the current uncertainty surrounding development and operating costs, the registry cannot be justified on the basis that a net consumer benefit will result. An increase in consumer costs is likely to result.
- 3.7 Based on our current understanding of the intended functionality of the GIC's registry, gas consumer costs whether charged directly or bundled within other charges, will on average increase by \$22 - \$31 per ICP per year. In contrast the cost of the electricity central registry equates to about \$1<sup>1</sup> per ICP per year. While the functionality requirements of the gas and electricity registries are similar, the comparatively small number of gas consumers, results in a much

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<sup>1</sup> Based on industry estimates

smaller base over which to spread registry costs. There are approximately 250,000 gas consumers (ICP's) compared with electricity's 1,700,000<sup>2</sup>.

- 3.8 The range in the expected cost of the registry reflects the current level of uncertainties associated with this undertaking, including:
- *The number of gas consumers* - ICP's over which costs can be spread – uncertainty concerning future number of new connections and disconnections.
  - *The quantum of any retailing cost savings* - savings generated and available for offset against registry costs.
  - *Uncertainty as to the actual development and operating costs* - Registry development costs in addition to the registry itself include costs of work to be undertaken by retailers, meter service providers and networks to implement the registry (establishing central registry data, interfacing systems, etc).
  - *The cost of the registry compliance regime*
- 3.9 WACC (i.e. investment rate of return) considerations will not materially impact on the level of registry charges. It is probable that registry costs will manifest themselves as an increase in consumers' fixed daily charges. It is likely that disconnection numbers will increase particularly small consumption residential consumers.
- 3.10 The projected registry cost presents about a 3 - 4 percent increased gas cost for Powerco network small gas consumers<sup>3</sup> and about a 1.5 - 2.5 percent increase for larger residential consumers<sup>4</sup>. For large industrial consumers the cost increase would be small, while for smaller businesses on Powerco's networks the increase will be up to 2 percent.<sup>5</sup>
- 3.11 The position stated in the Decision Paper<sup>6</sup> that consumers will not share in the costs allocated to retailers or networks (i.e. will not receive an increase in their gas costs) is likely to be incorrect. Powerco is unable absorb the registry costs intended to be allocated to the company and there are no material offsetting cost reductions that will be generated.
- 3.12 At the retail level it is not known whether retailers will absorb the costs passed on to them by Powerco [and other networks] or, together with their own allocation of Registry costs, retailers will aggregate costs and pass them on to consumers.

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<sup>2</sup> GIC Consultation October 2006

<sup>3</sup> Small consumer: 2,000 kWh/yr consumption; average cost - Powerco networks.

<sup>4</sup> Larger residential consumer: 8,000 kWh, average cost – Powerco networks

<sup>5</sup> Charge are to be based on connections not capacity or usage.

<sup>6</sup> Decision Paper: section 3.12, P9

- 3.13 **The GIC should ensure that for those stakeholders subject to Commerce Commission control regulatory arrangements are established to permit the recovery of registry costs. An alternative would be for the GIC to allocate registry costs to retailers thereby avoiding Commerce Commission related regulatory considerations.**
- 3.14 **The GIC is asked to address the required regulatory pass-through arrangements within its intended approach to Government for regulatory changes and consult with effected network owners and metering service providers.**

Cost Allocation

- 3.15 The GIC's proposal is to assign 50 percent of the registry development and 40 percent of operating (including compliance costs) to networks. For Powerco this represents approximately a 20 percent share of total registry costs<sup>7</sup>.
- 3.16 It would seem more efficient for retailers to be charged registry costs directly by the GIC, as the switching registry is predominately a retailer activity. This would be consistent with the more recent GIC decision in respect to Reconciliation and Allocation development costs<sup>8</sup>.
- 3.17 The Commerce Commission arrangements for network and meter cost recoveries discussed in the preceding section of this paper can be avoided if registry costs are charged directly to retailers<sup>9</sup>.

National Energy Registry

- 3.18 **Powerco considers the option of a National Energy Registry should be further investigated.** A registry servicing electricity, LPG and reticulated gas has the potential to reduce costs at that the ICP level of cost allocation.

#### **4 Consultation on Compliance Regulations**

- 4.1 It is doubtful that the requirements of Section 43N (1) (c) concerning alternatives to regulations has also been meet<sup>10</sup>.
- 4.2 **The alternative of establishing whether each stakeholder would bind themselves to a specific industry-based compliance arrangement that reasonably meets the GIC's needs should be determined before proceeding with the regulatory solution.**

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<sup>7</sup> Powerco allocation: determined by the number of Powerco ICP's in relation to total industry ICP's

<sup>8</sup> Recently advised - Reconciliation workshop, 25 January 2007: All charges to retailers as the predominate beneficiary.

<sup>9</sup> Powerco's GMS charges are subject also to commerce Commission control..

<sup>10</sup> The referenced section requires a demonstration that the compliance objective is unlikely to be satisfactorily achieved other than by regulation i.e. by voluntary compliance.

## 5 Matters for Supplementary Consultation

### Application of Rules

- 5.1 The draft rules definition of network ["Distributor"] results in Todd Energy Limited [Nova Gas] not being subject to the Rules. This places Networks subject to the rules and compliance arrangements at a significant competitive disadvantage.
- 5.2 **Networks should not be subjected to the proposed compliance rules in respect to any complaints initiated by a distributor (or parties associated with such distributors) that are not themselves subject to the Rules or compliance requirements.**
- 5.3 **Powerco seeks to have the rules modified so all such compliance exposures are removed.**
- 5.4 With Todd owned network gas consumers not forming part of the proposed registry the term "central registry" is inappropriate, the GIC's registry is simply that – a gas registry.

### Commercially sensitive information

- 5.5 Powerco preferred position remains that all gas consumers should be included in the switching registry; the privileged position of Todd's network effectively being excluded by selective definition wording is unsupportable.
- 5.6 Strong network competition exists and it is important for it to be fully effective that the same business conditions apply equally to all network owners. The GIC should be concerned to ensure that the principles of equality and good regulatory practice are adhered to and that unfair or privileged protections are not bestowed on any particular stakeholder.
- 5.7 **With the effective exclusion of Todd network customers from inclusion in the registry and its compliance requirements, it is essential that the Rules exclude confidential price and other sensitive information as reasonably determined by network owners.**

### Liability Cap for registry operator

- 5.8 **The liability cap of the registry operator should be the same as that that applies to the electricity operator; the relevant measure of liability being at the ICP level with impacts equivalent to those experienced in the electricity industry.**

## 6 ICP parameters maintained by Distributors

- 6.1 In implementing the GIC registry Powerco will incur costs in assuming responsibility for maintaining the following ICP data parameters:
  - *ICP altitude* – currently maintained by Retailers
  - *Load Shedding Category* – currently maintained by Retailers
  - *Maximum Hourly Quantity* – accessible from meter providers.



#### ICP altitude

- 6.2 Powerco will need to develop and maintain a system for assigning altitude to each ICP. **To minimise overall registry development costs ICP altitude should continue to be populated by the first retailer of record** (i.e. status quo continues).

#### Load Shedding Category

- 6.3 For Powerco networks this data is presently maintained by each retailer for their own customers. As network owner Powerco has no contractual relationship with individual gas consumers that would permit the network to interfere with individual customers gas supply. Where network integrity is compromised due to non or limited supply availability Powerco performs load shedding control on a district, not individual consumer basis. Customer details - names, business details, contact information etc - is not held by Powerco networks. This information would need to be sourced from retailers.

- 6.4 **Individual ICP load shedding data should continue to be maintained by the retailer who has the contractual capacity to cease supply to a customer in situations where gas supply curtailment is imminent or occurring.**

#### Maximum Hourly Quantity

- 6.5 **MHQ is a function of the GMS installation and should be maintained by meter service providers, not network owners.** The proposed disclosure on application arrangements to apply would need to be managed by network owner however.

Powerco expects the costs associated with assuming responsibility for the foregoing to be considerable and involves the development of additional systems and processes.

#### Data Cleansing

- 6.6 The timeframe for data cleansing is too short. To ensure that the registry is populated accurately a longer lead time is needed to resolved ICP's which have statuses in dispute. Site audits will take some time perform and so a longer lead time is needed. Powerco recommends 3 - 4 months.

#### Other matters

- 6.7 The switching rules state timeframes for distributors to create and liven ICP's however no timeframe is stated for retailers to claim ICP's. Powerco recommends to ensure that continuous focus is placed on making the registry accurate, reports of unclaimed ICP's by proposed retailer should be produced which are viewable by all participants.
- 6.8 We believe that this level of reporting is missing in the electricity registry where validly created and livened ICP's are allowed to remain unclaimed for a significant period without a retailer taking ownership and without a focus to resolve.

- 6.9 Often distributors create and liven ICP's from a retailer request and that these ICP's remain at a ready status for months (and in some cases years).
- 6.10 Setting appropriate reporting mechanisms around ready statuses will ensure that ICP's are proactively followed up and where necessary removed from the registry.

## **7 GIC Questions**

- 7.1 Powerco's response to the GIC's questions is attached and needs to be considered in conjunction with the foregoing.
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	Questions	Comments
Q1	Do you agree that the draft rules did not meet the intent of the rule drafters by effectively making confidential network pricing and other sensitive information available to participants?	<p>Yes. The drafting of rule 32.8 (as it previously stood) gave access to any registry participant to secure information as soon as they requested it, then provided advice to the secured record owner that this information had been provided. As drafted, this rule would not prohibit data mining.</p> <p>New rule 48 states that “relevant charges” will be withheld. However Powerco’s intent was to restrict all information which would give a searcher an indication of size for a connection. Other sensitive information such as network pressure and MHQ (where provided) should be masked to prevent data mining. The rule doesn’t state any timeframe to which information should be provided, we believe within two working days is appropriate to either provide the information or advise when it will be available.</p> <p>We noted the informal comments made to the GIC in relation to network by-pass. Whilst network pricing is one facet of vulnerability, it is the uneven playing in relation to disclosure of network pricing information between open and closed networks which necessitates the need for restriction of data. Unless the playing field is levelled so that <b>all</b> network companies are subject to the same standards of disclosure we cannot see why the need to restrict to data will abate in future.</p> <p>For completeness, s43G(2)(e) of the Gas Act should also be amended to include meter owners in the event that other parties (who are not retailers, distributors or transmitters) purchase metering assets.</p>
Q2	Do you agree that the draft rules should be amended to include a “disclosure on application” code to be used for some ICP parameters?	Yes. We would like the changes to the rule to include other information and a timeframe added to the rule (see Q1).
Q3	Do you agree that the amended draft rules included in this paper achieve the appropriate outcome for	The new rule assists in achieving the objective however the changes as noted in Q1 should be added.

	confidential network price and other sensitive information?	
Q4	Do you agree that the draft rules do not meet the needs of the participants by not catering for inclusion of consumer installations directly connected to the transmission systems?	Yes.
Q5	Do you agree that the amended draft rules included in this paper are an appropriate means by which ICPs related to consumer installations directly connected to the transmission system should be added to and maintained in the registry?	Yes.
Q6	Do you agree that the registry operator should be covered by the compliance regulations in respect of the switching rules which impose process obligations on the registry operator?	Yes.
Q7	Do you agree that there should be a liability cap for the registry operator?	Yes.
Q8	Do you agree with the amounts specified?	The liability cap of the registry operator should be the same as that that applies to the electricity operator; the relevant measure of liability being at the ICP level with impacts equivalent to those experienced in the electricity industry
Q9	Do you agree that some aspects of the registry operator performance are best managed through a service provider contract?	Outsourcing is a long term strategic decision which requires careful consideration of the risks/rewards and especially the challenges that might arise should the service need to be brought back in house. A careful study of the GIC's internal capabilities, core functions and the strategic importance of the service is necessary before such a decision is undertaken.  However, notwithstanding the above, the GIC should have the flexibility to awards service contracts to suitably qualified person(s).
Q10	Do submitters consider that the draft rules attached to this paper adequately reflect the intent of the Switching proposal? If not, please provide drafting	Yes.

	amendments in mark-up form.	
Q11	Do submitters consider that the draft regulations attached to this paper adequately reflect the intent of the Compliance Proposal? If not, please provide drafting amendments in the mark-up form.	Yes.