



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

***Powerco's submission on the
Consultation Paper to Gas Industry
Company
October 2006***

1. Introduction

1.1 Thank you for the opportunity to present comments on the consultation paper "Switching Arrangements for the New Zealand Gas Industry".

1.2 Powerco is one of only two dual energy network companies operating in New Zealand. We have the second largest electricity distribution network and the largest gas distribution network measured by number of customer connections. We operate 5 gas networks located in Taranaki, Hutt Valley Porirua, Wellington, Manawatu-Horowhenua and Hawkes Bay with an overall network length of approximately 5,350km.

1.3 **Cost Benefit Analysis (Appendix 2 of the Proposal) Assessment of quantitative benefits and costs.**

1.4 Powerco has reviewed this thoroughly and has raised the following queries which need clarification and rounding out before we can answer Q8 and 9. These are as follows:

- Allocation of charges against distributors, retailers and GMS owners. There appears to be no justification for the current 50:50 split nor the 45:45:10 split. What is the basis for settling on this split? In addition there is no indication from the proposal whether the number of ICP's derived in the calculation will be total ICP's, contracted ICP's or ICP's which are capable of being energised.
- Why does the GIC intend to levy charges against actual costs as incurred? This approach allows no certainty to distributors, retailers and GMS owners, may result in regulatory breaches and provides no incentive to the Registry operator to manage its costs. Powerco recommends that the GIC sets a budget each financial year and levies parties based on an expectation of budgeted costs. At the end of the financial year a revision process could be implemented to "wash-up" any differences between budgeted costs and actual costs.
- Powerco believes that the dynamic efficiencies raised in the proposal following the introduction of the centralised registry are overstated. In Powerco's opinion significant switching of all classes of customers already occurs.
- Powerco believes that the benefit from dynamic efficiencies will not accrue in proportion of the funding outlined. In fact the major benefits of dynamic efficiencies will be through lessening the barriers to customer switching which will in turn lead to innovation in retail pricing. As this benefit is not directly influenced/attributable to distributors nor meter owners, we can not see how a significant benefit will accrue to these participants.
- Powerco is currently under the control of a Provisional Authorisation for the supply of GMS and gas network services. Powerco is unable to change its prices to reflect the Registry Development fee or any ongoing costs. Is the GIC able to commit that these additional costs will not be imposed on Powerco without any ability to recover as a pass through charge (as Electricity Commission levies are for the electricity sector)?

- In providing some more context to the development of the Registry the GIC has stated that significant disputes exist between retailers relating to the allocation of energy. Powerco understands that similar disputes have occurred in the electricity sector and would warn against the treatment of a centralised registry as a panacea for such issues.
 - Powerco also considers that the audit benefits are significantly overstated. There are two likely audit arrangements which could give rise to audit expenses, being database alignments and site visits. Powerco has conducted database alignments with most of its retailer customers. Costs of this nature are expected to be office based and labour intensive, but should be one off costs. Site visits also give rise to audit costs to check the validity of data held in distribution databases. Generally industry practice dictates that the costs of site visits are borne by the party whose records are found to be incorrect.
- 1.5 The assumption made by the GIC that \$20.6 million of margin is available to be driven from the gas industry is interesting. If this margin was actually only \$10 million, due to an increased margin being necessary to take account of the increased risk of the gas business, the proportion of this attribution to the registry were to reduce between 10 and 20%. Then the cost benefit analysis becomes a more close run situation.
- 1.6 **Registry as Database of Record**
- 1.7 Powerco considers Vector's comments in their submission in relation to database of record are critical and should be given appropriate consideration.
- 1.8 Powerco supports Vectors position that proposed rules and the operation of schedules 2 and 3 do not facilitate the registry becoming a database of record for the life-cycle of an ICP.
- 1.9 Powerco also supports Vectors proposal to reduce number of statuses which will simplify the proposed arrangements.

Analysis of Statement of Proposal

- 1.10 Section 4.27 makes some valid comments around the lack of rules for customer switching and the governance structure. However, some of this analysis in this paragraph is not a fair assessment of the current state. The comments alluding to why gas supply can be left without a retailer contract in particular is not in our opinion, the primary cause.
- 1.11 When a customer moves out of their current address and finalises their account with their retailer, the connection to the site is still live albeit without a contracted customer. Usually this arrangement is transitional until a new occupier moves in. In the meantime the retailer who was supplying the old customer retains a relationship with the site to continue to read the GMS. When a new occupier takes residence, the consumer might decide to contract with a different retailer, and that retailer will begin reading the GMS at the site. When the site begins consuming gas again the old retailer will detect this and consider this consumption "vacant energised consumption" and will attempt to bill it to the occupier. Whilst at the same time the contracted retailer is also billing the site for the same consumption. It is this practice which causes

duplication in retailer billing, which leads to consumer dissatisfaction. . Thus it is not that distributor databases are “an unreliable source of ICP” data (to use the words in the proposal), but lack of mandatory rules around switching practises results in non-timely, non-accurate maintenance of ICP records in distributor databases.

- 1.12 Notwithstanding the above, and timing differences aside, there is really no valid reason why distributors databases should not be considered accurate if the retailer has appropriate procedures to capture switching notification advice sent by distributors to winning and losing retailers.
- 1.13 Another area we have experienced concern having administered an internal register, is the level of appropriate training and supervision received by call centre staff. This can result in customers being switched in error and/or customers being switched without a valid contract. These practices may not be fully resolved with a centralised registry and will still lead to switching inefficiencies
- 1.14 Section 6.7 the 30,000 limit of transactions is too low per annum given the number of changes which are expected to flow through the registry.
- 1.15 Section 6.15. Powerco is pleased to see that a security flag has been added to the registry features to prevent data mining. However we are concerned that rule 32.8.1 provides for restricted data to be provided to any registry participant providing they inform the owner of the data that they have passed it on (32.8.2). We recommend these clauses are rewritten so that the intent of the restriction to data is preserved.
- 1.16 Section 6.17 Allows the Gas Industry Co to provide view access to “other parties” we recommend that the reference to other parties be removed and the parties defined.
- 1.17 A definition for unidentified Gas (UFG) is missing from the definitions listing and is distinctly different from the definition of losses.
- 1.18 Powerco’s preferred option has always been Option 2 (Reconciliation code enhancements). Whilst we accept Option 2 does not meet all of the requirements of a central registry some of the analysis under table 8 is incorrect. We consider that it has been a year since our first submission on a central registry and wonder whether some of the steps to gear up to a central registry could have been taken without disruption or derailment of the longer term objective of implementing a central registry.

	Questions	Comments
Q1	Do submitters agree with this Regulatory Objective? If not, what do you think the regulatory objective should be?	<p>No. Section 43G(2) of the Gas Act refers to ensuring that customers have the ability to choose a gas retailer. However, the regulatory objective statement of this proposal refers to “...<i>timely and accurate switching of customers between retailers and distributors</i>”.</p> <p>We recommend re-wording of the statement of proposal as follows: “...<i>timely and accurate switching of customers between retailers to be facilitated by timely and accurate information exchanges between retailers, distributors and metering operators</i>”.</p>
Q2	Do submitters agree with the analysis of the proposal? If not, please state your reasons.	Generally the analysis is accurate with no fundamental deficiencies. Issues which do not detract from the main points of the proposal are made above refer 1.10 – 1.18.
Q3	Do submitters agree this proposal complies with section 43N of the Gas Act? If not, please state your reasons.	Yes. We believe the proposal complies with s43N of the Gas Act.
Q4	Do submitters have any other information that they consider is relevant to the assessment of the proposal?	Refer Q2.
Q5	Do submitters agree that the proposal meets the Regulatory Objective? If not, please state your reasons.	No. Refer Q1.
Q6	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.	As addressed in our submission on “Cost/benefit of switching options for New Zealand Registry” Powerco has reservations in relation to the analysis undertaken. These reservations are still unresolved especially in relation to the specific costs of the software development and ongoing support costs. Whilst the GIC has tried to give some indication of the likely costs, it is difficult to quantify the likely level of costs until the formal requirement specifications have been developed and sent to interested parties. While only the events of time will prove whether the costs and benefits have been accurately identified, Powerco believes that the GIC should commit to reviewing

	<p>the project as the establishment and operational costs are more accurately identified.</p> <p>We also note, that in our original submission in November 2005, we recommended that the GIC consider the possibility of adding Gas ICP records into the National Electricity Registry to create a National Energy Registry. It is disappointing to see from the analysis that this option was not explored further.</p> <p>No. There is a significant weakness if the registry is to be a "database of record"</p> <p>The proposal as it is written intends that the gas registry will constitute a database of record, however unless distributors (and meter owners) have the ability to make status changes when the physical work at the site differs from the record in the registry then we can not place reliance that the registry is in fact fulfilling one of its core functions..</p> <p>Often as a result of an audit or a site visit Powerco will identify a deviation between the physical connection at the site and the registry. As we do not have permission to change the status of a connection we rely on the retailer to make the appropriate change. In some cases the retailer may not make the change, or may not resolve it in a timely manner.</p> <p>From our experience, this is one of the most significant weaknesses of the electricity registry and we sincerely hope that this weakness is not duplicated in the gas registry.</p> <p>Refer 1.3</p>
Q7	<p>Do submitters believe the Rules adequately reflect and govern the proposal? If not, please provide all drafting amendments in a mark-up?</p>
Q8	<p>Do submitters agree with the funding options for the proposal? If not, please state your reasons.</p>
Q9	<p>Do submitters agree with the allocation of costs for the proposal? If not please state your reasons?</p>