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Kelly Rastovich
Gas Industry Company Ltd.
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Dear Kelly

SUBMISSION ON THE DECISION PAPER REGARDING SWITCHING AND COMPLIANCE DATED 19 JANUARY 2007

1. Vector welcomes the opportunity to provide submissions on the proposed Switching Arrangements for the New Zealand Gas Industry.
2. Vector generally supports the introduction of industry arrangements that meet the Government's objectives: in this case the establishment of a central registry to facilitate customer switching. Vector also supports measures that improve the efficiency and accuracy with which the industry handles information from a pragmatic perspective.
3. Vector is, however, yet to be satisfied that the development of a central gas registry will not add significant cost overhead for the benefits received to consumers. We would request the GIC continue its efforts to ensure that the structures placed around a central registry do not inhibit the sector's ability to establish a registry that is fit for purpose and is affordable (i.e. consumers are willing to pay).
4. Vector's main concerns with the GIC's Decision paper follow, and Vector believes these concerns are significant enough for the GIC to make considerable changes to the decisions outlined in the paper. Vector believes the consequences of not making significant changes could be damaging to the gas sector, through consumer sensitivity to price.
5. Vector makes key points it believes are of particular relevance within the main body of the submission below. As requested we have also provided answers to the specific questions within the Decision Paper, as the Appendix.
6. Vector has not had sufficient time to make marked up changes to the draft rules themselves and does not believe sufficient time, or a particularly helpful process has been followed by the GIC in this case. It is not clear what specific changes have been made to the draft rules since the disestablishment of the industry working group that developed the rules, and it would have been useful if a marked up version showing changes since had been provided to facilitate comment.

The need to meet policy objectives

7. Many of Vector's following concerns relate to whether or not the Government policy statement objective has been sufficiently met. Vector is therefore concerned in particular about the GIC's statement in paragraph 4.5:

"[GIC] has decided to implement a compliance and enforcement regime through gas governance regulations".

8. The Minister of Energy, not the GIC, decides what regime should be established. He does so on recommendation by the GIC, but is in no way bound to accept those recommendations. While this statement may be semantics or simply an oversight on the GIC's part, it is fundamentally important that due consideration is given of the extent to which the GIC has met the Government's policy objectives.

Cost effective solutions and informed decisions

9. It is important to understand that any additional costs incurred by the gas industry will ultimately be borne by a customer base of only 240,000 connections, and therefore any solution must reflect that.
10. Vector does not see sufficient evidence of information to be satisfied enough is known about the costs and benefits of this initiative and believes that it will be necessary for the GIC to make further decisions on the extent of functionality once the RFP process is carried out.
11. Vector therefore recommends that in order to allow the Minister to make fully informed decisions, an RFP process is run prior to Ministerial sign off, with conditions in the RFP process making it clear that any contract is subject to Ministerial approval.
12. Once RFP's are received, this information will contribute to deciding on the most cost effective solution. It is not appropriate to discard the option for a joint electricity and gas registry at this time, when it may be that an RFP is submitted by the existing electricity registry provider that is the most efficient solution.
13. It is important however to consider other issues when deciding on whether the registry is joint with electricity, in particular:
 - Any perceived short term gain from a joint registry (switching or administration cost savings) is likely to be swamped by the lost innovation gains across the supply chain from a more modern system that incorporates the lessons learnt from electricity;
 - Who would oversee a joint registry and the risk that Electricity Commission rule change processes may hinder the development of the improved information flows necessary if the industry is to move to daily nominations – there is potential for gas to be seen as a minor issue compared to electricity, and thus given a lower priority;
 - It is critical for the GIC and the gas industry to develop solutions that improve the operation of the gas industry, and ensure systems and processes maintain the ability for gas only retailers to remain competitive.

Funding and cost allocation

14. Vector is disappointed that its views in earlier submissions regarding cost allocation have not been included in the Decision Paper to any recognizable extent. Given

that the Government Policy Objective is to facilitate switching of customers between retailers, it is not clear how this might be of benefit to distribution companies already burdened with regulation due to perceptions of a lack of competition. Vector already has its own billing and recording systems in place to carry out its own business and believe that there will be only minimal benefits to Vector's distribution business if any, and even fewer to its metering business. Vector, and other distributors, will incur significant extra costs for:

- Registry establishment fees (including participation in the data cleansing process);
- Assembling, verifying, and loading data onto the registry (including metering details);
- Ongoing registry fees; and
- Costs of administration of the compliance regime, including costs of audit, investigation, and dispute resolution.

15. These costs are likely to outweigh any benefits accruing to the gas distribution or metering business. Because these costs are not offset by any identifiable savings, Vector is therefore left in a position where we will have no alternative but to pass on extra costs to retailers. While ultimately these costs will thus pass to retailers and consumers (who are the beneficiaries of improvements to the switching process through improved perceptions of retail competition), we believe that it would be more appropriate for GIC to directly allocate these costs to the retail sector. This will be more efficient, and more in line with the original intent of the GPS – to increase retail competition and minimise barriers to switching.
16. In Vector's opinion the cost division outlined in paragraph 3.8 of the Decision paper is unacceptable and completely inappropriate. The latter parties have systems already that permits tracking and billing for each ICP at which it provides services. The end user is contracted to the retailer and it is between the retailers that the end user moves, customers do not switch network companies.
17. Vector remains of the view that at a minimum, 80% of costs should be borne by retailers, and it is more appropriate that retailers bear the full costs.
18. Regarding paragraph 4.20 of the Decision Paper, Compliance costs should not be levied against all industry participants but should be recovered, as far as possible, from the party causing the cost – the party at fault - rather than covering costs with a general industry levy. Penalties should not be absorbed into the GIC budget, but used specifically and explicitly to offset the costs of running the compliance regime.

Registry coverage of all gas connections

19. Vector's view is that all connections to the gas transmission network (whether direct connections or via a local distribution network) should be covered by the Rules. The switching benefits to consumers will not be achieved unless this occurs.
20. While direct connections to the transmission network are now accommodated (rule 42.3), all consumer installations supplied by all distribution networks should also be covered. An amendment to the definition of **distributor** is required, so that it reads:

“Distributor means a gas distributor as defined in the Act”.
21. This would remove an anomaly where a party “undertaking distribution activities in accordance with the Gas (Information Disclosure) Regulations” could potentially claim exemption from the rules if they have exemption from the information disclosure requirements of these regulations.

Role of Registry as 'Database of Record'

22. Vector's previous submissions recommended obligating all parties (distributors, retailers, and meter owners) to record details of any field work carried out which changed the ICP connection status; and to record details of site visits which showed that the ICP had a different connection status at that date to that shown on the Registry. This transaction trail would enable the registry software to deduce the likely current connection status of the ICP. Vector would be prepared to accept this transaction trail as the database of record, and utilise it to establish liability for network charges.
23. Utilising the registry in this way would avoid the need for distributors, retailers, and meter owners to maintain event trails independently of the registry. In particular it would avoid significant costs in reconciling connection status between distributor and retailer records and the registry, with consequential arguments about the liability to pay network and metering charges.
24. The redrafted rules do not incorporate the changes requested, and Schedule 1 Part B maintains the original concept: "Connection status is maintained by the responsible retailer in accordance with the requirements published by the industry body under rule 58.2."
25. This is not what happens in practice, and would be a backward step if it did. The distributor (and in some cases the meter owner) may and does dispatch field staff to carry out work which changes the connection status of the installation. There should be an obligation on the party responsible for managing the field work, to record this on the registry.
26. Further changes to the rules are required (particularly rule 58.2) to reflect the intent that the Registry should provide a record of field work done, and site audits carried out. The need to maintain separate records for this should be avoided, as this would increase the cost to both distributors and retailers supplying information to each other so they can update their respective databases.

Responsibility for ICPs needs clarification under the rules

27. Switching rules **must** clearly indicate that a retailer is responsible for an ICP until they complete a permanent disconnection. Transitional disconnection, as described in the GANZ Reconnect / Disconnect protocol, must not be allowed to become the means for the retailer to avoid their obligations as a supplier.
28. In a Transitional disconnection a physical break is created, preferably immediately downstream of the service valve, but maybe at the outlet of the GMS. If there is a gas escape on the service (connection to an individual site) the responsible "supplier" under the Gas Act needs to be the retailer who completed the disconnect. Similarly the end user needs a party to whom they can revert if something happens to the service/GMS or if they want either removed. The retailer should be this party.

Implementation plan timetable needs review

29. The implementation timetable published in section 9.38 appears overly optimistic, given the need to develop the registry specification, finalise and issue the RFP, and pre-go live reconciliations and cleansing. It is recommended that the timetable be

reviewed by the Registry Establishment Team at their first meeting. Furthermore the GIC should consult with shareholders on who to appoint as the Registry Establishment Team

30. Vector notes the difficulties with implementing new rules and regulations until section 43G(2)(c) of the Gas Act has been amended. This will delay implementation of the new registry until at least 2008, or 2009 (section 6.9 of the GIC Decision Paper). Given the apparent inevitability of the delay, we believe it is very important to revisit the detail of the rules, and the cost benefit analysis, in the window created by the problem with the Gas Act. This should include wider consultation on avenues available for cost minimization (including the pursuit of more cost - benefit information), while continuing to meet the requirements of the Regulatory Objective.

Concluding remarks

31. As a general comment, Vector would like to reiterate the need for more cost benefit information before any decision is recommended to the Minister, and that an RFP process is undertaken prior to recommendations being submitted.
32. It is also imperative that all rules and switching arrangements:
- must be clear and unambiguous from the beginning; and
 - vagaries are removed and avoided where possible; and
 - Compliance rules must have 'teeth' and be readily enforceable. This last point echoes our comments in our earlier submission on the Part 2 – Compliance and Enforcement Discussion Paper.
33. Vector is happy to comment further on any part of this submission. Please contact me in the first instance.

Kind Regards



Ewan Gebbie
Group Manager Regulatory Performance

Appendix A: Answers to Specific Questions in the decision paper

Q1: Do you agree that the draft rules did not meet the intent of the rule drafters by effectively making confidential network price and other sensitive information available to all participants?

A1: Yes, Vector agrees with the above statement. Refer to paragraph 86 in Vector's submission dated 9 October 2006.

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?

A2: Yes, Vector agrees with the above statement. Refer to paragraph 86 in Vector's submission dated 9 October 2006. We note that rules 44, 47, and 48 now provide for "disclosure on application" for network and metering price codes.

Q3: Do you agree that the amended draft rules included in this paper achieve the appropriate outcome for confidential network price and other sensitive information?

A3: We believe that the draft rules now cover the appropriate outcome for confidential network pricing. However this question completely ignores GMS owners. As noted below, the GMS price is even more confidential than network price – this should be reflected in the Clause 47 of the Rules. Metering is a competitive business, free to set charges on a case by case basis, and is always at risk of being displaced (by-passed).

We also note that the specific provisions of rules 31 and 32 have been replaced by a more generic rule 31.4 which allows the GIC to place restrictions on report and enquiry access to registry information. This needs some further changes. The intent should be to minimise the possibility that the Registry may be used as a marketing tool to assemble a database of potential customer sites, where the retailer, distributor or meter owner does not already have a contractual relationship in respect to these ICPs.

There should also be a requirement for the GIC to publish these restrictions, and to ensure that the service provider has put appropriate software in place to prevent unauthorized access.

Q4. Do you agree that the draft rules did not meet the needs of participants by not catering for inclusion of consumer installations directly connected to transmission systems?

A4: Yes, Vector agrees with the above statement. Please refer to paragraph 41 in Vector's submission dated 9 October 2006.

Q5: Do you agree that the amended draft rules included in this paper are an appropriate means by which the ICPs related to consumer installations directly connected to transmission systems should be added to and maintained in the registry?

A5: Vector agrees with the intent of the rule change, but does not agree with clause 42.3.2, whereby the GIC "assigns a distributor as the responsible distributor for ICPs supplied from that gas gate". This proposed solution is only practical because currently Vector owns the gas transmission system, and is a party to the Switching Arrangement rules in its capacity as a gas distributor. The solution must recognise the fact that in future there may be gas transmission system(s) owned or operated by a party who is not a gas distributor. It would be quite inappropriate for responsibility for

ICPs directly connected to any such gas transmission network to be assigned by the GIC to a distributor, who may not be involved at all in this particular issue. A consequence of any change to rule 43.3.2 involving inclusion of the transmission operator within the rules, is that a further change would be required to section 43G(2)(c) of the Gas Act.

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?

A6: Vector's position is that we support a low-cost, stand alone registry. We therefore do not support the view that the registry operator should be covered by the compliance regime, with a liability cap. The appointment contract should also provide for the registry operator to rectify any failure to comply with the rules, at the registry operator's cost.

Q7: Do you agree that there should be a liability cap for the registry operator?

A7: Vector agrees that there should be a liability cap. It should be set at a level which does not deter prospective service operators from tendering, while still providing an incentive for them to meet the obligations under the rules.

Q8: Do you agree with the amounts specified?

A8: Vector does not have a view on this.

Q9: Do you agree that some aspects of the registry operator performance are best managed through a service provider contract?

A9: Yes, where GIC believes it is prudent to negotiate a contract that better protects its own interests and those of other registry participants.

Q10: Do submitters consider that the draft rules attached to this paper adequately reflect the intent of the Switching Proposal?

Vector has not had sufficient time to go through these rules at a detail level to satisfy itself on this, though would agree this was the case when the working group handed over the draft rules.

The intent of the switching proposal is best summarized by the updated regulatory objective (section 3.4 of Decision Paper):

"The objective of the proposed draft rules for new switching arrangements is to achieve timely and accurate switching of customers between retailers, by facilitating the timely exchange of accurate and up-to-date information between customers, retailers, distributors, and meter owners".

While the regulatory objective has no reference to 'cost effective' Vector shares the concerns of other submitters that the rules, and the implementation of these rules, must achieve the objective in a cost-effective manner.

Q11: Do submitters consider that the draft regulations attached to this paper adequately reflect the intent of the Compliance Proposal?

A11: Vector believes that in this case draft regulations are appropriate, due to the need for enforceability and compliance. However, it is important for the GIC to ensure it does not now more readily move to the use of regulations as the establishment of a compliance regime changes future costs and benefits of rules versus pan industry agreements. It is important that each issue goes forward on its own merits and does not overtly capitalize on the sunk costs of a compliance regime.