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Submission on Extending the Electricity Price Review's Final Recommendations to the Gas Market

1. This is Vector Limited's (Vector) submission on the Gas Industry Company's (GIC) consultation paper on Extending the Electricity Price Review's (EPR) Final Recommendations to the Gas Market – An Assessment, dated 6 November 2020.
2. We set out our responses to the consultation questions using the submission template provided from the following page. No part of this submission is confidential.

Preparing for a Low-Carbon Future

3. Vector's view is aligned with the GIC in supporting initiatives to prepare for a low-carbon future. We recommend that in advancing this work the GIC coordinate closely with the Climate Change Commission to ensure that future changes help industry and customers prepare for a transition to a low emissions energy future.
4. Consideration of all proposed changes to customer and market settings should account for the changes to our wider energy sector driven by decarbonisation. In this context we support the GIC taking an integrated view of our energy supply chains to support a whole systems approach which is required for our response to climate change.
5. A Ministry for Energy would support this coordinated approach and would strengthen the alignment between policy goals and regulation. We therefore support the review of policy and regulatory institutions and agree that this should be inclusive of gas market decision making. We also believe that it is critical that regulatory settings and decisions account for decarbonisation – across our whole energy sector.

Reducing Energy Hardship

6. We support the EPR's focus on energy hardship and agree that consideration needs to be given to the gas market to understand its role in supporting resilience for customers experiencing energy hardship, as well as the impact of any changes on affordability.
7. Data is key to understanding the role of gas in supporting customers experiencing energy hardship. We agree with the GIC that 'the role of Gas in energy hardship is not well understood and we are supportive of a cross sector, collaborative, data-based investigation of this issue – led by the Hardship Group'.

We are happy to discuss any aspects of this submission with the GIC. Please contact Luz Rose (Senior Regulatory Partner) at Luz.Rose@vector.co.nz or 04 803 9051 in the first instance.

Yours sincerely
For and on behalf of Vector Limited



Robyn Holdaway
GM Public Policy

Questions

Vector's responses to the consultation questions on extending the final Electricity Price Review recommendations to the gas sector

Submission prepared by: Vector

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	Question	Vector's comments
Q1	Do you support the role of the CAC 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 residential and small business consumers?	<p>Yes, Vector supports extending the Consumer Advocacy Council's (CAC) remit to gas consumers. This would ensure that gas customers, particularly residential and small business customers, would have similar levels of protection as electricity consumers.</p> <p>The GIC can gain insights on what engagement approaches could work well for residential and small business gas consumers from the implementation of the CAC for electricity customers.</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>We support the EPR's focus on energy hardship and agree that consideration needs to be given to the gas market to understand its role in supporting resilience for customers experiencing energy hardship.</p> <p>We support the hardship initiatives in B1-B6 and B8 and their extension to gas. We agree with the GIC that there are efficiency gains from considering gas alongside electricity in any hardship initiatives, and also believe there is a need to better understand the role of gas products in supporting the resilience of customers experiencing energy hardship – particularly in the context of a just transition to a low emissions energy future.</p> <p>We suggest that the GIC consider what insights can be applied to the gas market from the Electricity Authority's (EA's) proposed Consumer Care Guidelines – which focus on the provision of services to customers experiencing energy hardship and vulnerable customers. These guidelines are intended to replace the existing:</p> <ul style="list-style-type: none"> Guidelines on arrangements to assist Vulnerable Consumers;

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	<ul style="list-style-type: none"> Guidelines on arrangements to assist Medically Dependent Consumers; and Addendum to the Medically Dependent Consumer guidelines, and the Vulnerable Consumer guidelines. The Consumer Care Guidelines capture all consumers and contains additional provisions for medically dependent consumers. <p>The EA used a 'layered' approach in developing its Consumer Care Guidelines which is intended to promote flexibility and only provides prescriptive guidance when it is needed to offer more protection and to minimise harm. We support this approach.</p> <p>In relation to prompt payment discounts (PPDs - B7), we note the GIC's observations that 1) dual fuel providers are moving away from PPDs, and 2) PPDs are not a feature of the LPG market except when it is sold as part of an electricity retailer's dual fuel offering, in which case, the first observation applies.</p> <p>Vector does not currently offer PPDs. However, for the parts of our gas business with a retail interface, we offer pensioner customers a 10% discount. We support the removal of PPDs to give customers a fairer deal across the market.</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>We do not support the extension of PowerSwitch to include LPG.</p> <p>In the case of bottled LPG the market is relatively small, pricing is transparent and non-complex, and it is already easy for customers to 'switch' between numerous providers.</p> <p>The value that could be gained for bottled LPG gas customers through PowerSwitch is therefore marginal and the cost of maintaining this platform would be borne by customers. We recommend against any initiative which could make bottled LPG gas less affordable for price sensitive customers.</p> <p>Whilst there is only one supplier for each LPG retic, it is possible for North Island customers to switch to reticulated natural gas, and in Christchurch there are multiple retics running side by side. Customers could also switch to bottled LPG. However, there is an opportunity to drive greater competition and switching for reticulated LPG customers by providing open access to individual retics irrespective of ownership. This could drive greater competition between LPG gas retics. When it comes to switching from one form of reticulated gas to another (i.e., from LPG to natural gas in the North Island) this is costly for customers as appliances need to be changed. Whether encouraging customers to make this new</p>

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	<p>investment in reticulated natural gas is the right course of action depends on the future of new connections for reticulated natural gas in the context of decarbonisation.</p> <p>Whilst we support the intention to promote competition the above factors need to carefully considered when it comes to encouraging switching within the gas market, and we believe that opening access between retics irrespective of ownership is a sound way of driving switching and competition among an existing customer group.</p> <p>There are fundamental differences in the competition dynamics experienced by an LPG consumer wanting to switch their supplier and an electricity consumer wanting to switch electricity retailers.</p> <p><u>Very low switching costs</u></p> <p>The presence of multiple LPG suppliers provides consumers with various switching options. For example, consumers of 9kg cylinders who are not satisfied with the quality of the supplier's product or service can 'vote with their feet' at very little or no extra cost, e.g. by walking to any of the nearby petrol stations or swap outlets.</p> <p>The low value and portability of LPG cylinders make them easy to replace from either the consumer's or supplier's perspective; cylinders are more like a "good" than a "service".</p> <p>For 45kg cylinders, when a customer wishes to switch, the new bottle supplier removes the cylinders provided by the previous supplier, minimising inconvenience to the customer.</p> <p><u>Transparent prices</u></p> <p>The cost of replacing or refilling a cylinder is transparent, if not pre-determined. In the case of 9kg cylinder purchases, payment is made instantaneously at the retailer's shop, petrol station, or online.</p> <p>The presence of multiple bottled LPG suppliers puts downward competitive pressure on retail prices and for prices to converge. Consumers are faced with a single price point or standard price range for a particular product. Any upward deviation from that price is likely to reflect the additional cost of transporting the cylinder(s) to remote locations, which is the case with the purchase of any other good. On the other hand, nothing prevents consumers from negotiating for special terms, e.g. lower price for bulk purchases.</p> <p>Bottled LPG consumers face transparent competitive prices from multiple suppliers. Bottled LPG pricing is more straightforward than for reticulated electricity and gas. It is instantaneously accessible, i.e. understanding your LPG</p>

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	<p>bill does not require an understanding of how many kWh units you consumer or what plan/tariff you are on.</p> <p>The price of a 9kg cylinder is available, if not displayed, at retail outlets. The price of refilling a 45kg cylinder is readily available from retailers (akin to pre-paid pricing). Consumers do not have to wait for a month to know the actual amount of their bill, avoiding 'bill shocks'.</p> <p>Transparent and straightforward prices enable LPG consumers to more easily compare terms across suppliers and switch to those whose terms would best suit their needs and pricing preferences. It reduces information asymmetry between suppliers and consumers, lowering costs to consumers in their search for better deals. It also enables suppliers to more easily compare their prices to those of their competitors, and provides them with the incentive to offer promotional terms or match or match their competitors' offerings, if not provide better terms.</p> <p>In respect of C2 – “Improve consumer awareness of Powerswitch and Utilities Disputes” – our view on the applicability of Powerswitch to gas customers is outlined above. Similarly, we do not consider that the benefit which would be gained by increasing gas customer awareness of Utilities Disputes would outweigh the cost. We currently seek to resolve any issues with customers through direct and proactive engagement – however in rare cases where this does not resolve the issue, Utilities Disputes is already available and used.</p> <p>We agree with the analysis and approach proposed by the GIC to advance C3 <i>Develop a streamlined way to process customer requests for consumption data.</i></p> <p>Separately, we agree with the GIC's position on C4 <i>Make distributors offer retailers standard terms of network access to gas.</i> Like the GIC, we do not support a mandatory model similar to the EA's mandatory DDA, for gas.</p> <p>In relation to C5 – <i>Prohibit saves and win-backs</i> we do not currently offer 'saves and win-backs' – but rather we seek to resolve issues with customers through proactive engagements before they look to a different provider. However, we agree with the GIC's proposal to extend the saves and win-backs prohibition to include residential and small business gas customers. This will support competition and offer a fairer deal to customers.</p> <p>We support the GIC's intention to learn from the proposed pilot scheme of the EA to help non-switching customers find better deals. Our views on the application of switching to gas customers are expressed above.</p>

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<p>Q4: Do you support GIC's views in respect of the initiatives in D1 to D4 (please address each separately)?</p>	<p>In relation to D1-D4, we generally support the GIC's ongoing work on developing an information disclosure regime for the wholesale gas sector. This is particularly the case for planned and unplanned gas production and storage outages. Greater transparency in the gas wholesale sector would help address information asymmetry and ensure timeliness in the disclosure of information that has a material (or potentially material) impact on the market. This promotes competition and efficiency in the market. We suggest that this ongoing GIC initiative, which is well advanced, be allowed to take its course.</p> <p>While information disclosure arrangements are being developed, we support the ongoing voluntary disclosure of natural gas outage information on the GIC's website.</p> <p>We encourage the GIC to continue to work closely with the Electricity Authority on the latter's ongoing work to improve thermal fuel information disclosure. This would ensure alignment across sectors, avoiding gaps and duplication and unnecessary costs for participants in both industries and ultimately, energy consumers.</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>At this stage, we have not formed a view on the GIC's decision not to support the issuance of a government policy statement for gas distribution and transmission at this stage. However, we support the GIC continuing to monitor gas transmission, including the impact of the cost of balancing gas on delivered gas.</p> <p>Whilst we acknowledge the view that gas distribution does not face the same issues and pressures as electricity distribution pricing from the emergence of new technologies currently, we note that in the context of decarbonisation there may be a constructive role for clear policy guidance by way of a GPS in the future to support both regulatory and industry alignment with our wider emissions reduction goals.</p> <p>We disagree with the GIC's position on E3 <i>Ensure distributors have access to smart meter data on reasonable terms</i>. The GIC does not support this recommendation. However, the provision of data on reasonable terms (which account for the cost to meter owners for providing this data) has the potential to add benefit to gas distributors and ultimately to customers.</p> <p>Gas distributors would benefit from data from smart gas meters. For example, data on pressure and flow helps distributors improve their network models and avoids duplicating similar equipment that they need to install at various locations (much smaller coverage). Depending on the type of data it may also provide improved customer notifications during outages.</p>

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	<p>Data is key to understanding the role of gas in supporting customers experiencing energy hardship. We agree with the GIC that 'the role of Gas in energy hardship is not well understood and is supportive of a cross sector, collaborative, data-based investigation of this issue – led by the Hardship Group'. In addition to supporting industry's understanding of the role of gas for customers experiencing energy hardship, having a better line of sight across gas consumption can help gas distribution networks plan for the future and make more informed choices about investments in their assets – these choices could have significant implications for our transition to a low emissions future.</p> <p>In light of the deployment of smart gas meters by Vector Metering to Genesis Energy customers, we suggest that the GIC consider the following aspects of this new type of technology and service:</p> <ul style="list-style-type: none"> • development of the appropriate provisions relating to advanced metering in the Gas Downstream Reconciliation Rules (e.g. reporting requirements), the Gas Switching Rules (e.g. any additional information that needs to be captured in the Gas Registry), and other relevant rules for the gas sector; • discussion with industry participants on any necessary updates to the GIC's Gas Quality Requirements and Procedures Document and Gas Measurement Requirements and Procedures Document. <p>We suggest that the GIC establish an advisory and/or working group comprising MEPs and other relevant industry participants to inform the above and other processes and industry arrangements required in the transition to advanced gas metering.</p> <p>We do not support giving the Commerce Commission more power to regulate gas distributors. Gas distributors are already highly regulated businesses and are subject to well-established price-quality regulation and information disclosure requirements under Part 4 of the Commerce Act 1986.</p>
Q6:	<p>Do you support GIC's initial view to not extend the initiatives in F1-F4 to include Gas (please address each separately)?</p> <p>We support the GIC's initial view to not extend the initiatives in F1-F4 to gas. We note that the GIC is undecided on extending this recommendation to the gas market. We consider the recommendation <i>F1 - Give the EA more powers to regulate network access</i>, to be a function and extension of a siloed market framework designed decades ago which is increasingly out of step with the requirements of decarbonisation for electricity, and which is even less relevant to gas.</p>

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	<p>As the GIC has identified, the emerging technologies for Gas markets are dominated by hydrogen. The GIC has also noted in its consultation the “GIC is not aware of any equivalent technology changes, or ‘over-spilling’ of regulated monopoly participant activity into unregulated competitive market equivalents in Gas markets”.</p> <p>Gas pipelines are already highly regulated and we recommend that the GIC keep a watching brief to see how regulatory change could better enable investment in and the integration of emerging technologies which support decarbonisation. In practice any change to this effect would likely be the opposite to the approach proposed in F1 – which serves to limit the involvement of infrastructure providers with emerging carbon reducing technologies. This involvement is key to the effective integration and coordination of such solutions.</p> <p>As is the case for emerging technologies in the electricity market, hydrogen represents a potential opportunity to support our transition to a low emissions energy future – and regulation should be evolving to enabling existing market actors to invest in, and integrate it, rather than making it more difficult for market participants to do so.</p> <p>Regarding the extension of <i>F3 – Update the compliance framework and strengthen the information gathering powers</i> to the GIC, we note that the GIC already has a very high level of compliance and a well-understood process.</p> <p>Regarding the applicability of <i>F4 – Phase out low fixed charge tariff regulations</i> we note that there is no low fixed charge tariff equivalent in the gas market.</p>
<p>Q7: Do you support the extension of the initiatives in G1-G4 to include Gas (please address each separately)?</p>	<p>Overall, we support the extension of initiatives in G1-4 to gas. Energy sector innovation will play a key role in our decarbonisation journey and our response to climate change requires a whole systems approach. We therefore support the extension of the recommendation <i>G1 – Encourage more energy sector innovation</i> in gas.</p> <p>In regards to <i>G2 – examine security of supply and resilience</i> we agree that gas plays a key role in security of supply and resilience of our energy systems. We support the GIC’s consideration of this in the context of our transition to a low emissions energy future.</p> <p>We strongly support the recommendation in <i>G3 – explore new institutional arrangements for energy policy regulation</i> and agree that policy and regulation which impacts all energy supply chains needs to be included in this.</p> <p>We strongly support the recommendation <i>G4 – Improve the energy efficiency of new and existing buildings</i> and acknowledge the role and work of Energy Efficiency</p>

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	Conservation Authority (EECA) and the Green Building Council to drive change in this area.