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31 March 2006

Mr P Mitchell  
Gas Industry Company  
P O Box 10-464  
WELLINGTON

Dear Paul

**COST BENEFIT ANALYSIS PAPER – GAS SWITCHING**

Thank you for the opportunity to comment on the “Cost Benefit Analysis of Options for Switching in the New Zealand Gas Industry”. I am responding on behalf of the Commercial Division, Wanganui Gas (WGL). A separate submission has being made by *GasNet* our Network Operations Division.

I have enclosed a completed hand written copy of ‘Appendix 4 Format for Submissions’ but would like to take this opportunity to comment on the contents of the consultation paper.

**Background**

WGL continues to be concerned about some of the justifications being made to promote the move towards a Central Registry which we believe have still to be verified and substantiated such as Clause 2.4 in the background to the cost benefit analysis which states:

*“The process issues have resulted in outcomes which can be summarised as follows:*

- *Customer dissatisfaction with switching performance*
- *High participant transaction costs*
- *Barriers to competition due to inefficient and incomplete processes*

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It is interesting to note that CRA International has modified these “problems” from “having an impact on gas switching” to “could be” having an impact on gas switching”.

### **Cost Benefit Analysis**

WGL’s main concern with regards to this paper is the quality of the data used by CRA International. We note that CRA International themselves expressed concerns regarding the quality and consistency of the data used. This is not meant as a criticism of the Gas Industry Company (GIC) as we appreciate that the data you provided was the best possible that was available to you. However as with any cost benefit analysis it is the quality of the data that determines the overall quality of the analysis. CRA International referred to this issue a number of times within their report.

Whilst WGL appreciates that it has been extremely difficult for the GIC to estimate the potential savings that could accrue from the introduction of a Central Registry. We would however like to better understand how the estimate’s savings of \$282,000 per annum were made up. Whilst the actual costs associated with the design and implementation of a Central Registry will be clearly identified prior to the final decision to implement the Registry WGL believes it is equally, if not more as important that the potential savings, if any, are accurately quantified prior to that final decision

On the matter of potential cost savings from a Central Registry the GIC must appreciate that even if the potential savings from the introduction of a Central Registry will not be shared equally amongst the participants. As a result it is more than likely that the introduction of a Central Registry will impact on the retailers’ competitive position. It is in fact possible that if the overall savings from the creation of a Central Registry are relatively low then WGL and other low cost operators may see switching costs increase whilst higher cost operators acquire cost savings.

It would be beneficial if the estimated average cost per switch of \$9.87 could be broken down into its constituent parts such as winning and losing retailer, network and GMS operator costs, plus what is included within these costs. This would have given us the opportunity to compare our existing costs with the possible registry costs.

Likewise it would also have been beneficial to have had the Registry development costs expressed as a cost per customer rather than a cost per switch, as in the end all customers will have to pay for a Central Registry whether they ever switch or not. Again WGL has some concerns about the costs we may incur from implementing a Central Registry solution. Will these costs be equitably spread between the various parties involved?

Given that WGL favours Option 4 the Central Registry Integrated with Allocation Mechanisms we appreciate that the first step towards such a solution would be the creation of a Central Registry. We are therefore disappointed that the potential cost savings for this option were not factored into the Cost Benefit Analysis carried out by CRA International.

## Summary

To summarise our current position on these matters WGL confirms that: -

- It will support the implementation of a Central Registry if there is a net cost benefit to our Company.
- We continue to prefer Option 4, the Central Registry with Allocation Mechanism, as we believe that there are potentially greater cost savings to be achieved with this option rather than with a Central Registry for the switching only option.
- The recently completed cost benefit analysis is clearly of a general and high-level nature. A much more detailed analysis and determination of the potential savings, if any, is required prior to embarking on a more detailed cost benefit analysis to allow the industry and the GIC to make a final decision on the future for a Central Registry. Such detailed analysis of the potential savings should include those associated with the Option 4 proposal.

Again thank you for this opportunity to comment on these matters. I would be happy to discuss any of the above comments or issues with the Working Party and can be contacted on e-mail at [jim.raybould@wangnauigas.co.nz](mailto:jim.raybould@wangnauigas.co.nz) or by phone on 06 349 0126.

Yours sincerely



Jim Raybould  
**COMMERCIAL MANAGER**

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## Appendix A: Format for Submissions

To assist the Gas Industry Co in the orderly and efficient consideration of stakeholders' responses, a suggested format for submissions has been prepared. This is drawn from the questions posed throughout the body of this consultation document.

Respondents are also free to include other material in their responses.

### Recommended Format for Submissions

QUESTION	COMMENT
Q.01 Do you agree with the methodology applied by CRA International in determining the relevant costs and benefits of the options previously consulted on?	Yes, but the accuracy of the analysis appears to have been compromised by the quality of the data used.
Q.02 Do you agree with the identification and quantification of costs and benefits of switching arrangements contained within CRA International's report?	Unable to comment due to the concerns regarding the accuracy of the data used by CRA International which they commented on several times within their report
Q.03 Are there are any other factors you are aware of that should be taken into account in assessing the costs and benefits of the preferred option.	Analysis of Option 4 did not include any estimated savings on the Allocation and Reconciliation process.