GAS INDUSTRY COMPANY LIMITED

Discussion Paper

Revised Proposal for Allocation of Switching and Registry Costs

19 April 2007

Gas Industry Co was formed to be the co-regulator under the Gas Act 1992. As such, its role is to:

- recommend arrangements, including rules and regulations where appropriate, which improve:
    - the operation of gas markets;
    - access to key infrastructure; and
    - consumer outcomes;
- administer, oversee compliance with, and review such arrangements; and
- report regularly to the Minister of Energy on the performance and present state of the New Zealand gas industry, and the achievement of Government's policy objectives for the gas sector.

Authorship

This discussion paper has been prepared by Nicole MacFarlane of Gas Industry Co, and Lee Wilson of Concept Consulting Limited.

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1 Introduction

Purpose

1.1 The Government Policy Statement on Gas Governance ("GPS") invites Gas Industry Co to recommend arrangements, including regulations and rules where appropriate, for the standardisation and upgrading of protocols allowing customers to switch between retailers, so that barriers to competition are minimised.

1.2 Following extensive development and consultation, Gas Industry Co issued a Decision Paper in January 2007[1] setting out the decisions that the Board had taken in respect of progressing the development of a set of switching rules, including a central gas registry and associated compliance arrangements.

1.3 Although the Board has confirmed its overall approach and intends to recommend the arrangements to the Minister of Energy, it has reconsidered issues associated with the allocation of switching and registry costs. This review has been undertaken in response to stakeholder feedback on the original cost allocation proposal.

1.4 The purpose of this discussion paper is to:

- set out Gas Industry Co's review of the switching and registry cost allocation issues;
- describe Gas Industry Co's revised proposal for allocating these costs; and
- seek further stakeholder input on the revised proposal prior to finalising the recommendations to the Minister of Energy.

1.5 Stakeholders should provide submissions on this matter by **Thursday, 3 May 2007.** Gas Industry Co will consider submissions and expects to make recommendations to the Minister of Energy in late May 2007.

Structure of this Paper

1.6 This paper is structured as follows:

Section		Key Points
1	Introduction	• Outlines the purpose of the paper and the process for making submissions.
2	Background	• Sets out the steps leading up to this discussion paper. • Provides a brief summary of submitters' views expressed in the consultation process.

[1] Decision Paper Switching and Compliance, 19 January 2007

Section		Key Points
3	Approach to Cost Allocation	• Describes the approach adopted in reviewing the proposed cost allocation arrangements. • Sets out the criteria developed for assessing options. • Presents the Gas Industry Co's assessment of options against the criteria.
4	Comparison with Electricity Sector Cost Allocation	• Sets out the registry cost allocation arrangements in the electricity sector for comparison purposes.
5	Summary and recommendations	• Presents the Gas Industry Co's revised proposal for switching and registry cost allocation arrangements.
6	Next Steps	• Sets out the proposed path forward.

Submission Requirements

1.7 This discussion paper invites stakeholder feedback on a revised proposal for allocation of switching and registry costs. Parties who wish to make a submission on the revised proposal are invited to respond by 5:00 pm on **Thursday, 3 May 2007**. Please note that submissions received after this date may not be able to be considered.

1.8 Gas Industry Co's preference is to receive submissions in electronic form (Microsoft Word format and pdf) with "Submission on Revised Proposal for Allocation of Switching and Registry Costs" in the subject header to submissions@gasindustry.co.nz. A hard copy would also be appreciated and should be posted to:

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1.9 Gas Industry Co will acknowledge receipt of all submissions electronically. Please contact Nicole MacFarlane if you do not receive electronic acknowledgement of your submission within two business days.

1.10 Submissions should be provided in the format shown in Appendix A. Gas Industry Co values openness and transparency and therefore submissions will generally be made available to the public on Gas Industry Co's website. Submitters should discuss any intended provision of confidential information with Gas Industry Co prior to submitting the information.

2 Background

Process to develop proposed switching and registry arrangements

2.1 The GPS requires Gas Industry Co to undertake a review of arrangements allowing retail gas customers to switch between retailers. During this review there has been a broad industry acknowledgement of the inefficiency and sub-optimal performance of the current switching arrangements. Central to the review was the work of the Switching and Registry Working Group ("SRWG") which was established in May 2005. The SRWG helped oversee the initial consultation process and provided the basis for the Switching Proposal[2].

2.2 The consultation process involved two separate discussion papers[3] and a workshop[4] on the Switching Proposal, and achieved a relatively high level of agreement about the general direction and how to proceed.

2.3 In conjunction with the Switching Proposal, Gas Industry Co considered the development of suitable compliance and enforcement arrangements to support the proposed switching arrangements. This involved a discussion paper[5], a decision paper[6] and a workshop combined with the switching and registry workshop.

2.4 Gas Industry Co released two Statements of Proposal in August 2006 for the purposes of sections 43L and 43N(2) of the Gas Act 1992 (the "Act"). The Switching Proposal proposed the establishment of a central gas registry with rules for switching customers, and the Compliance Proposal[7] proposed regulations to support the switching rules. The two Statements of Proposal were designed to be read in conjunction with each other. This ensured industry stakeholders were commenting on the full scope of the proposed arrangements for switching and compliance.

2.5 There appeared to be a reasonable level of support for both proposals, with submissions concerning switching and the central gas registry focussing on cost allocation, the cost/benefit analysis (whether the costs of the registry could be confirmed before proceeding), and central gas registry establishment and implementation issues (especially around database cleansing and rights of access by participants).

2.6 In January 2007 Gas Industry Co released a Decision Paper, explaining the decisions that the Board had taken in respect of progressing the development of a set of switching rules, a central gas registry, and associated compliance regulations.

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[2] Statement of Proposal Switching Arrangements for the New Zealand Gas Industry Part 1, 31 August 2006.
[3] October 2005, and August 2006.
[4] September 2006.
[5] Consultation paper, Compliance and Enforcement Arrangements in the New Zealand Gas Industry, 12 April 2006.
[6] Decision Paper on Modified Arrangements for Compliance and Enforcement for Retail Gas Market Registry and Switching, 9 July 2006.
[7] Statement of Proposal Switching Arrangements for the New Zealand Gas Industry Part 2 Compliance and Enforcement Arrangements, 18 August 2006.

Proposed cost allocation arrangements

2.7 Cost allocation is an important aspect of the overall package of switching and registry arrangements.

2.8 The Switching Proposal suggested that the funding of the switching and registry arrangements should be divided into two categories:

- A development fee reflecting the costs associated with developing and establishing the registry – to be apportioned 50%/50% between distributors and retailers based on their respective share of ICPs.
- An ongoing fee reflecting the costs of operating and maintaining the registry including the costs payable to the registry operator – to be apportioned 45%/45%/10% between distributors, retailers and meter owners based on their respective share of ICPs.

2.9 Several different views were expressed by industry participants in submissions on the Switching Proposal about how the costs should be allocated. These varied between the extremes of 100% allocation to retailers and 100% allocation to distributors and meter owners. Several submissions noted that the allocation appeared to be relatively arbitrary and that the proposal did not attempt to justify the allocation in either economic or beneficiary terms.

2.10 Gas Industry Co considered the submissions received. It acknowledged that the proportions allocated to the different participant classes appeared to be relatively arbitrary because no detailed assessment had been made of the likely costs savings in each class. However, it also noted that the proposed allocation was very similar to that recommended for, and used by, the Electricity Commission in respect of the recovery of the electricity registry costs.

2.11 Gas Industry Co was mindful of the fact that application of standard criteria for cost allocation did not normally yield one unique solution, and that decisions on cost allocation typically require some judgement about the weighting to apply to different criteria. The cost allocation proposal contained in the Switching Proposal was considered to fit within the bounds of feasible solutions.

2.12 Gas Industry Co decided to retain the proposed fee structure and cost allocation and to include more explanation of the rationale in the Decision Paper, alongside its consideration of the submissions and its conclusions.

2.13 In the Decision Paper Gas Industry Co confirmed its overall approach and its intention to recommend the arrangements to the Minister of Energy. However, further stakeholder input was sought in three particular areas. Although the issues for further consultation did not directly relate to cost allocation, a number of submissions received on the Decision Paper raised concerns about the proposed cost allocation arrangements. Submissions suggested that the cost allocation decision had tended to polarise support for the switching rules and central gas registry. Retailers were generally supportive of the proposal and appeared to broadly accept the cost allocation (although Contact Energy indicated that it may be preferable to allocate costs 100% to retailers).

2.14 Distributors have now called into question the benefits of the proposal more strongly than was the case in previous submissions. Vector and Powerco, in particular, have strongly opposed the decision on cost allocation. All three open network distributors appear to have suggested that, under the proposal, the costs that they would incur would exceed any benefits.

2.15 The following table summarises the positions expressed by submitters through the consultation process.

Distributors		**Retailers**	
Powerco	Prefers 100% retailers	Genesis Energy	Prefers costs to be allocated across retailers, distributors and meter owners
Vector	Prefers 100% retailers but would accept 80% retailers and 20% distributors	Contact Energy	100% retailers may be better than the proposal
GasNet	Would accept 100% retailers or 100% distributors	Wanganui Gas	Prefers costs to be allocated to distributors and meter owners
		Mighty River Power	No preference expressed

2.16 The cost allocation that appears to have most support is 100% to retailers (supported by three distributors and one retailer). There appears to be little support for the original proposed cost allocation, although Genesis Energy has expressed support for some allocation of costs to retailers, distributors and meter owners.

Review of the cost allocation proposal

2.17 The degree of opposition emerging to the cost allocation proposal obliged Gas Industry Co to re-evaluate the issue carefully. As a result, Gas Industry Co has now undertaken a review of cost allocation from first principles using a set of standard criteria typically applied in developing fee structures.

2.18 The review has included consideration of the previous submissions received, and of the cost-benefit information stakeholders provided to Gas Industry Co earlier in the switching and registry development process. Consideration of the approach adopted in the electricity sector has also been included as part of the review process.

2.19 This paper sets out Gas Industry Co's review and the conclusions reached. Stakeholder views are sought on the revised cost allocation proposal.

3 Approach to Cost Allocation

3.1 This section of the discussion paper describes the approach adopted by Gas Industry Co in its review of the proposed allocation of costs of the switching and registry arrangements. It sets out the criteria developed for assessing options and presents Gas Industry Co's assessment of options against those criteria.

Developing a fee structure

3.2 Developing a fee structure to recover the costs of establishing and operating a central gas registry suggests the application of a number of standard criteria that are consistent with the various principles and objectives for the gas sector in general:

- **Economic efficiency** – the fee structure should not detract from efficient market behaviour;
- **User/causer/beneficiary pays** – where possible the costs should be allocated on a basis where the those causing the costs or benefiting from the costs will pay;
- **Rationality** – where costs are allocated to participant classes there should be a strong connection between the participant class and the costs being recovered;
- **Simplicity** – the fee structure should be simple to apply and understand;
- **Equity** – users in similar situations should pay similar amounts; and
- **Sufficiency** – the fee structure should generate sufficient revenue to recover the costs.

3.3 The application of standard criteria for cost allocation does not typically yield one unique solution and in some cases the application of different criteria leads to conflicting outcomes. Settling on a cost allocation usually requires some judgement about the weighting to apply to different criteria. Different parties often apply different weightings depending upon their own perspective on what the most important criteria should be. Thus it is possible to come up with two or more different approaches to cost allocation by applying the same standard criteria.

3.4 These criteria are the same as those adopted by Gas Industry Co earlier in the consultation process. In this review of the cost allocation, Gas Industry Co has reconsidered its assessment against the criteria and the relative weightings that might apply to each criterion, drawing on submissions made by stakeholders.

The economic efficiency criterion

3.5 The economic efficiency criterion suggests that the cost allocation should support the efficient allocation of resources by the promotion of efficient market behaviour by industry participants (or at least should not materially detract from it). The cost allocation should also support a focus on cost-containment by Gas Industry Co.

3.6 This approach tends to support fee structures that allocate costs to those parties that are able to, and have an incentive to, influence volumes, quality and/or costs.

3.7 The parties most sensitive to switching and registry costs are likely to be end-use consumers and retailers. Distributors are likely to have a muted incentive to influence costs if they are able to pass through costs to retailers under price control or threshold regulation. They also have no influence on customer switching volumes – these arise from retailer and end user decisions.

3.8 As between retailers and distributors, retailers appear to have the strongest combination of incentives and ability to influence costs.

The user/causer/beneficiaries pays criterion

3.9 The user/causer/beneficiaries pays criterion suggests that where the costs of providing certain services are identifiable with certain participants, or where the benefits arising from the service are attributable to particular participants, those participants should be allocated costs. In some cases this criterion suggests an allocation to a party that has no ability to influence the costs and can conflict with the economic efficiency criterion. It is therefore important to consider the two criteria in combination.

3.10 The main users of the registry will be retailers, distributors and meter owners, while the ultimate causers are end-use consumers wishing to switch retailers. The beneficiaries of the registry are end-use consumers, retailers, distributors and meter owners through a combination of increased competition and ease of switching, and reduced switching costs.

3.11 End-use consumers should see the costs and benefits of the registry flow through tariff structures. It seems plausible that retailers, distributors and meter owners should be allocated some proportion of the costs.

3.12 The main issue to be determined under this criterion is whether the cost savings can be attributed to particular participants. Retailers and distributors should face reduced costs because the registry will replace existing mechanisms used by those parties to track customers. Meter owners could also potentially gain a benefit from the registry arrangements.

3.13 The original cost-benefit analysis undertaken by CRA International[8] used information provided by participants to establish the likely costs savings associated with a central registry. This information has been used to take a fresh look at the likely incidence of cost savings.

Cost saving benefits

3.14 Examination of the information provided by participants as input to the cost benefit analysis suggests the static benefits (essentially switching costs savings, less

[8] Cost Benefit Analysis of Options for Switching Arrangements in the New Zealand Gas Industry, CRA International, 28 February 2006

auditing and checking of data, and more accurate billing) as set out in Table 1, would accrue to industry participants. Table 1 has been developed from the information provided by participants. Some of the information was provided on a confidential basis; accordingly the estimated benefits are presented in aggregate form.

Table 1: Estimated static benefits accruing to participants

Distributors		**Retailers**	
Distributor 1	confidential range D1	Retailer 1	confidential range R1
Distributor 2	confidential range D2	Retailer 2	confidential range R2
Distributor 3	confidential range D3	Retailer 3	confidential range R3
		Retailer 4	confidential range R4
Totals Distributors	**$30,000 - $50,000 pa**	**Total Retailers**	**$310,000 - $465,000 pa**

3.15 In some cases the data provided is difficult to interpret and in some cases the benefit has been imputed from the data provided. Subsequent information supplied by participants in recent submissions appears to be inconsistent with some of the data provided for the cost-benefit analysis. There does not appear to be any information on possible cost savings to meter owners.

3.16 It appears that the authors of the cost-benefit analysis considered the benefits likely to accrue to meter owners would be relatively small because they were not considered.

3.17 The data in Table 1 appears to suggest a higher level of static benefits than indicated in the cost-benefit analysis. This could be because the authors of the cost-benefit analysis adopted a conservative assessment methodology.

3.18 The analysis in Table 1 should be considered as indicative rather than robust and highly accurate. Although there are reservations about the quality and completeness of the data, Table 1 does support an argument that cost-savings are likely to accrue in greater proportion to retailers than distributors. It suggests that the cost-saving benefits are likely to be split between distributors and retailers in the range of 5-15% for distributors and 85-95% for retailers.

3.19 Thus the user/causer/beneficiaries pays criterion suggests that retailers should be allocated the largest proportion of the costs.

Rationality criterion

3.20 The rationality criterion suggests that there should be a relatively strong nexus between the participants or participant classes to whom a cost is allocated and the cost being recovered.

3.21 Retailers and distributors appear to have the strongest connection with the registry and the costs associated with switching customers. Meter owners are also likely to interface with the registry. The rationality criterion suggests that retailers and distributors could be allocated some proportion of the costs.

Simplicity criterion

3.22 It is desirable that the cost allocation and fee structure should not create undue transactions costs for the Gas Industry Co or participants. This determines that the fee structure should be based on readily measurable quantities and allocated only to those participants that have a strong connection with the process and the cost-savings.

3.23 The proposed fee structure is relatively simple, based on the proportion of ICPs for each distributor, retailer and meter owner. Simplicity would also encourage reducing the number of participant classes to be allocated costs, particularly where the connection to some participant classes is weak and/or where the benefits are low.

3.24 The simplicity criterion appears to be best met by an allocation to retailers based on ICPs.

Equity criterion

3.25 This criterion suggests that participants in similar situation should pay similar amounts and that, within a class of participants the allocation of costs should not competitively advantage one participant over another.

3.26 An allocation based on ICP numbers appears to meet this criterion.

Sufficiency criterion

3.27 The sufficiency criterion suggests that the fees charged to participants need to be sufficient to fully recover the costs of the registry.

3.28 This criterion appears to be met by the current proposal, which is based on an estimate of forward costs and an annual wash up.

Summary and conclusion

3.29 Table 2 summarises the implications for the cost allocation and fee structure that arises from application of the standard criteria for cost allocation.

Table 2: Assessment summary

Criterion	Application to Registry Fee Structure
Economic efficiency	Retailers
User/causer/beneficiary pays	Retailers 85-95%, distributors 5-15%
Rationality	Retailers and distributors (possibly meter owners)
Simplicity	Allocation to retailers based on ICPs
Equity	Allocation based on ICPs
Sufficiency	Fees based on actual costs

3.30 Application of the standard criteria for cost allocation and fee structure suggests that retailers have the strongest connection with the registry, are likely to have the strongest incentives to influence the costs, and are the participants likely to accrue the most benefits. This suggests that the cost allocation should be either:

- 85-95% retailers and 5-15% distributors based on ICPs; or
- 100% retailers based on ICPs.

3.31 The choice between these alternatives depends on the weight applied to the simplicity criterion (which favours 100% retailers) relative to the user/causer/beneficiary pays criterion (which favours the alternative).

3.32 Gas Industry Co considers that the additional transactions costs associated with cost recovery from two separate classes are unlikely to be outweighed by the benefits, particularly when considering the relatively small contribution the beneficiary analysis suggests (5-15%). For this reason, Gas Industry Co considers that a higher weighting should be applied to the simplicity criteria than to the user/causer/beneficiary pays criterion.

3.33 Accordingly, Gas Industry Co's revised assessment against the criteria supports a cost allocation of 100% to retailers based on ICPs.

Q1: Do you agree that the cost savings from the registry are likely to accrue in greater proportion to retailers than to distributors and meter owners?

Q2: Do you agree that transactions costs are likely to be reduced by allocating costs 100% to retailers rather than split between retailers, distributors and meter owners?

4 Comparison with Electricity Sector Cost Allocation

4.1 In addition to the criteria assessment described in Section 3 above, Gas Industry Co has reviewed the approach adopted in the electricity sector. The electricity registry cost allocation is set out here, along with the background to its development.

Electricity registry cost allocation

4.2 The electricity registry service provides almost exactly the same service to electricity industry participants as the gas registry will provide for gas industry participants. It is overseen by the Electricity Commission which assumed the oversight role for the electricity registry and associated customer switching rules when it was established in 2003.

4.3 The electricity registry costs are allocated to retailers and distributors on the basis of a 50%/50% split. This was a factor in respect of the initial decision to allocate costs in a similar manner for the gas registry. The observation that the electricity registry is very similar in nature to the gas registry raises questions about how application of similar standard criteria could lead to different outcomes for gas and electricity.

Background to the electricity registry cost allocation

4.4 Prior to the establishment of the Electricity Commission, the electricity registry function was overseen by the MARIA[9] Governance Board (MGB) on behalf of industry participants as part of a self-regulatory approach encouraged by Government. The MGB was elected by participants and the MARIA rules comprised a multilateral agreement amongst industry participants. Changes to the rules were determined by an industry voting arrangement set out in the governance chapter of the rules.

4.5 The MARIA arrangement evolved over several years from the early 1990s. The initial rules were introduced to facilitate retail competition by providing for reconciliation of quantities supplied by different retailers within each distribution network. Over time they were expanded to include arrangements for “deemed profiles” for small customers, rules for switching customers, and a central registry function. The cost allocation arrangements for the central registry function also evolved over time as follows:

- When the registry was first established the costs were allocated entirely to retailers and retailers had all the decision rights about the switching and registry rules; and
- This was changed in 1999 to introduce some decision rights for distributors because the rules included placing obligations on distributors to undertake certain activities to support the switching arrangements. At this point the costs (and decision rights) were allocated 2/3rd to retailers and 1/3rd to distributors.

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[9] Metering and Reconciliation Information Agreement

Industry self-governance

4.6 In 2001 industry participants established the Electricity Governance Establishment Project (EGEP) to develop and implement a unified self-governing structure for the electricity sector, to be overseen by an Electricity Governance Board with a majority of members to be independent of the industry participants. The project involved rationalising the MARIA arrangements together with the self-governing arrangements for the wholesale electricity market (NZEM) and the Grid Security Committee (GSC), and introducing a set of arrangements covering transmission contracts and investments.

4.7 As part of this project, a unified approach to allocating the costs of the various self-regulatory functions was considered. The approach to cost allocation appeared to be based on the thesis that decision rights should be allocated to those parties that valued them and accordingly that costs should be allocated in the same proportions as decision rights.

4.8 This appears to have motivated the proposal to allocate decision rights and costs in respect of the switching and registry arrangements on a 50%/50% basis between retailers and distributors. Distributors were likely to have been concerned that less than 50% of the decision rights could lead to retailers forcing onerous obligations on distributors. Thus the driver on the cost allocation appeared to be based on decision rights rather than the identification of the beneficiaries of the switching rules and registry.

4.9 The removal of decision rights through the introduction of the Electricity Commission as regulator should have eliminated this rationale for allocation of the switching and registry costs.

Electricity Commission establishment

4.10 The process to establish the Electricity Commission included MED consideration of the most appropriate cost allocation across the full range of market arrangements. The arrangements for cost allocation were based on a report prepared by Charles River Associates (CRA)[10] for MED. This report recommended a high level approach to cost allocation to classes of participants reflecting:

- A defined, preferably tangible and readily measurable, cost area;
- A strong logical nexus between the cost area and the participant class receiving the allocation or any allocations that **did not involve all classes**;
- A default allocation that assigned costs between lines and energy participants on a 50/50 basis unless there was a sufficiently strong logical nexus between the costs being allocated and activities and/or interests of a subset of classes; and
- A specified alternative allocation only if there was a sufficiently strong basis to override the default approach.

[10] Recovering the Costs of the Electricity Commission; Charles River Associates; July 2003

4.11 The recommended allocation of switching and registry costs on a 50/50 basis between retailers and distributors appears to have been based partly on the default approach outlined in the third bullet and partly on a desire to maintain the allocation recommended by EGEP unless there was a compelling rationale for an alternative approach. It is also worth noting that the CRA paper was dealing with the allocation of more than $45m of annual costs, and the switching and registry arrangements comprised less than 1% of those costs. It would be reasonable for CRA to provide a more detailed examination of the cost allocation for substantial cost areas than for switching and registry.

4.12 Having not found a compelling rationale for diverting from the default approach or the EGEP approach, the CRA paper recommended a 50%/50% allocation between retailers and distributors.

4.13 It is concluded that the cost allocation for the electricity registry arrangements may not be a useful guide to the cost allocation for the gas registry.

Q3: Do you agree that the electricity registry cost allocation may not provide a useful guide to the cost allocation for the gas registry?

5 Summary and Recommendations

5.1 The degree of opposition emerging to the switching and registry cost allocation proposal obliged Gas Industry Co to re-evaluate the issue carefully. As a result, Gas Industry Co has now completed a review of cost allocation from first principles using a set of standard criteria typically applied in developing fee structures.

5.2 The review has included consideration of the previous submissions received, and of the cost-benefit information stakeholders provided to Gas Industry Co earlier in the switching and registry development process. Consideration of the approach adopted in the electricity sector has also been included as part of the review process.

5.3 The key points emerging from the review are:

- The allocation that appears to have most support amongst those parties to have made submissions is 100% to retailers;
- Information supplied by participants to assist with the cost-benefit analysis supports the view that the retailers are likely to experience the bulk of the cost savings from establishing the registry;
- Application of standard criteria for cost allocation and fee structure suggests that retailers have the strongest connection with the registry, and are likely to have the strongest incentives to influence the costs; and
- The 50% retailers and 50% distributors cost allocation for the electricity registry arrangements may not be a useful guide to the cost allocation for the gas registry.

5.4 The revised assessment suggests that the cost allocation could be either:

- 85-95% retailers and 5-15% distributors based on ICPs; or
- 100% retailers based on ICPs.

5.5 The choice between these alternatives depends on the weight applied to the simplicity criterion (which favours 100% retailers) relative to the user/causer/beneficiary pays criterion (which favours the alternative).

5.6 Gas Industry Co has concluded that the additional transaction costs associated with cost recovery from two separate classes are unlikely to be outweighed by the benefits, particularly when considering the relatively small contribution the beneficiary analysis suggests (5-15%). For this reason, Gas Industry Co considers that a higher weighting should be applied to the simplicity criteria than to the user/causer/beneficiary pays criterion.

5.7 It is therefore recommended that the gas switching and registry costs, both development and ongoing costs, should be allocated 100% to retailers with the proportions based on their respective share of ICPs.

Q4: Do you support the revised proposal to allocate switching and registry costs, both development and ongoing costs, 100% to retailers, with the proportion based on their respective share of ICPs? What are your reasons?

Q5: If you do not support the proposal, what alternative proposal would you support? What are your reasons?

6 Next Steps

6.1 The Board has confirmed its overall approach on switching and registry arrangements, as outlined in the Decision Paper issued in January 2007. Gas Industry Co has substantially prepared its recommendations to the Minister of Energy, subject to resolving this remaining issue of cost allocation.

6.2 Gas Industry Co will consider submissions on the revised proposal on cost allocation, and the Board will determine its recommended cost allocation arrangements for incorporation in its set of recommendations to the Minister of Energy.

6.3 It is anticipated that the recommendations will be made to the Minister of Energy in late May 2007. Implementation of the central gas registry, and establishment of a contract with a service provider, will follow the Minister of Energy approving the recommendations. However, the recommendations are unable to be approved until section 43G(2)(c) of the Act has been amended. That amendment is included in the Statutes Amendment Bill 2007 which was introduced in February 2007 and is likely to be passed in late 2007.

6.4 In their submissions in response to the Switching Proposal, several stakeholders suggested that they would like to see more detail on, and be involved in, the implementation process. Gas Industry Co agrees that this is desirable and proposes to establish a Registry Establishment Team and a Registry Implementation Team to assist with developing the detailed registry specification, overseeing the tendering process, and coordinating the transition to a central registry.

Appendix A: Recommended Format for Submissions

To assist Gas Industry Co in the orderly and efficient consideration of stakeholders' responses on switching and registry cost allocation, a suggested format for submissions has been prepared. This is drawn from the questions posed in the body of this discussion paper. Respondents are also free to include other material on switching and registry cost allocation in their responses.

Submission prepared by: (company name and contact)

QUESTION	COMMENT
Q1: Do you agree that the cost savings from the registry are likely to accrue in greater proportion to retailers than to distributors and meter owners?	
Q2: Do you agree that transactions costs are likely to be reduced by allocating costs 100% to retailers rather than split between retailers, distributors and meter owners?	
Q3: Do you agree that the electricity registry cost allocation may not provide a useful guide to the cost allocation for the gas registry?	
Q4: Do you support the revised proposal to allocate switching and registry costs, both development and ongoing costs, 100% to retailers with the proportion based on their respective share of ICPs? What are your reasons?	
Q5: If you do not support the proposal, what alternative proposal would you support? What are your reasons?	