Submission to the Gas Industry Company on
Current Issues for Domestic and Small Business Gas Consumers: Consultation with stakeholders

24 October 2008

Comments

Introduction

1. Powerco Limited (Powerco) is New Zealand's second largest electricity and gas distribution company with gas and electricity networks throughout the North Island. Our gas network is over 5,000 kilometres in length and services over 100,000 connections. Powerco also provides gas measurement (metering) services for approximately 49,000 or 48% of our gas distribution customers.

2. Powerco is pleased to make a submission on the issues facing domestic and small business gas consumers and welcomes the significant amount of work the Gas Industry Company (GIC) has completed. This area is of particular interest to Powerco as the majority of our gas customers are in the residential or small commercial market. This review is timely as the Commerce Commission considers competition in the electricity sector, and it is important that the gas sector continues to show progress in this area.

Promoting competition

3. As the GIC states, pipeline gas faces competition from a number of other fuel sources. It is important to work across the whole gas sector to improve outcomes for small consumers as part of increasing the attractiveness of pipeline gas. As the GIC acknowledge, this includes the whole supply chain including transmission, distribution, metering, gas technology producers and production.

4. Powerco agrees with the GIC that competition should be the primary vehicle to drive improvements to the outcomes of small consumers. Competition incentivises improvements in service quality levels and price levels. Fully informed consumers only buy from those operators that provide the most beneficial combinations of quality and price that maximise their consumer surplus. This is a key part of improving productive and allocative efficiency, and allowing consumers to signal the level of quality they are prepared to pay for.

Consumer expectations should be aspirations rather than targets

5. The policy framework used by the GIC is logical and has been applied methodically. The first important step in any review is to define aims and objectives. The GIC has chosen to do this by a list of consumer expectations. Powerco recommends that the expectations become a set of aspirational statements to evaluate progress against and aim towards. Making these a set of explicit targets would be unrealistic and raise consumer expectations. Table one in this submission provides some further refinements to the expectations and points of clarification.

Assessing the level of competition

6. The next step in the process, assessing the level of competition in the gas industry, is also logical. The GIC has provided a set of possible indicators and acknowledges

more work needs to be done. In economic theory standard tools to assess the level of competition are the:

a. Herfindahl-Hirschman Index (HHI): an index of the number of firms in the market and their market shares.
b. Lerner Index: an index measuring the degree to which prices exceed marginal cost.
c. Assessing barriers to entry, such as sunk costs, switching costs, restricted access to essential facilities and anticompetitive practices.

7. The GIC may wish to consider these as primary measures as they are directly related to the degree of competition. The types of indicators provided by the Allen Consulting Group then provide a secondary level to build on this picture, as some of them have a weaker causal link to the level of competition. For example, an increase in the indicator ‘number of new gas connections’ could be due to changes in government policy or a reduction in the attractiveness of other fuel sources, rather than increased competition within the gas industry.

8. In addition, it is unlikely that the benefits of regularly assessing competition in the distribution sector will outweigh the costs. Gas pipeline distributors, such as Powerco, have significant market power and this is unlikely to change over time. The degree of competition of gas distribution services has already been extensively reviewed by the Commerce Commission as part of its inquiry into Powerco and Vector’s gas distribution services. (Details of published analysis is provided later in this submission). It seems much more efficient to use this extensive analysis, than attempt to replicate it.

9. The consultation document mentions concerns of the availability of information on the competitiveness of metering. The Commerce Commission’s inquiry into Powerco and Vector’s gas services also investigated metering services. There are five metering options available to retailers: Powerco, Contact Metering, Vector Metering, Wanganui Gas and Nova Gas. All five companies offer meter services to varying degrees throughout New Zealand. While consumers have little knowledge or choice of their gas meter, retailers are able to choose their preferred GMS supplier.

10. In its inquiry into Powerco’s gas services, the Commerce Commission has stated that “competition exists for the supply of meters for new connections and replacing meters which have replaced the end of their economic life”, and “retailers have not suggested […] that [Powerco’s] meter rentals are unreasonable or obviously above competitive levels”.[1] This suggests that the competitiveness of metering is not a significant issue compared to other issues in the gas industry.

Proposals

11. The GIC has completed a through analysis of the current issues in the gas sector. This submission only comments on distribution and metering, as these are the areas that Powerco has direct experience on.

[1] Commerce Commission, Draft Decision Paper, Authorisation for the Control of Supply of Natural Gas Distribution Services by Powerco Ltd and Vector Ltd, 4 October 2007, page 52.

Cost benefit analysis

12. A number of the proposals require gas companies to provide more information. This is not surprising, as fully informed consumers are a vital part of a competitive market and these types of recommendations are often the simplest to implement. However the collective impact of information requests can create a large additional cost for gas distribution companies. Any requirement to provide information must have a quantifiable evidence of a problem and evidence that the benefits of a solution will outweigh the solution's costs.

13. The vehicle used to convey information should also be carefully considered. This includes avoiding trying to compete with information sources consumers may naturally turn to (eg building on information available at consumer.org.nz rather than creating a separate gas site), and decentralising information (eg linking to information on gas companies websites, rather than collecting and centralising information).

Connection/ disconnection proposal

14. Powerco does not agree with the proposed disconnection and connection regulatory solution. The GIC argues that retailers have an incentive to quickly disconnect vacant proprieties as they have to bear the cost of fixed pipeline charges, and this leads to inefficient disconnections. The proposed solution is for distributors to stop fixed line charges 14 days after the property is vacated.

15. Powerco disagrees with this proposal for safety reasons. While there are commercial implications from the connection and disconnection processes, safety must be the first priority and cannot be compromised. Extensive work has been undertaken by the gas industry and GANZ to develop protocols around disconnection and reconnection processes focusing on safety. The 14 day rule will only work if a physical disconnection is undertaken along the guidelines under the protocol.

16. Unlike electricity, gas cannot just be switched off and a set of actions must be undertaken to ensure that the site is left in a safe state. Disconnections require a physical action of turning the riser valve off, disconnecting the GMS and capping at the riser. Both Vector and Powerco follow this process. This is a cost that must be recovered. Powerco views vacant sites as a retailer commercial position with its end users. Retailers assess risk and manage this within their contracts with customers.

17. The fixed line charge also provides an incentive for the retailer to disconnect properties after unsafe periods of time. Powerco's fixed line charge for a gas customer using less than 15 gigaloules of gas per year is 10 cents per day. If the property, for example, was vacated for three months the fixed line charges amount to around $9.00. Powerco believes that this is a cost small enough to be managed by retailers.

Response to questions

Question	Comment
Q1	Powerco agrees that it is too early to assess the degree of competition in the gas sector. As the GIC states, pre-requisites should include a fully operational gas registry, established Reconciliation Rules, and strong alignment of contracts between retailers, distributors and other relevant parties in the value chain.
Q2	*Comments on distribution indicators* Powerco agrees that there is value in assessing the level of competitiveness in the wholesale and retail sector, but do not believe this is required for the distribution sector. This would duplicate the extensive work undertaken during the Commerce Commission's inquiry into Powerco and Vector's gas services. The GIC may also wish to consider the following issues with the distribution indicators suggested by the Allen Consulting Group: o *Number of new connections*: This is driven by the attractiveness of the whole gas industry (for example, retail companies introducing new products), and does not provide much insight into distribution competitiveness. If this is to be included it should be collected via the new gas registry, rather than an industrial survey. o *Number of access disputes*: This indicator is unlikely to be relevant to distributors, as distributors have access to roads under the Gas Act 1992 and typically only enter private land to supply it with gas. o *Type of new products and evidence of innovation*: Distributors must comply with Standards and good industry practice, so there is unlikely to be a significant number of new products introduced or deviation from accepted industry practice. Innovation is more about improving productive efficiency within standards, and this is difficult to quantify. Collecting accurate information can have high compliance costs. It is important that there is a rigorous cost benefit analysis and strong justification for any additional information requests. Powerco gas services already provides a range of information as part of the Gas Act 1992 Information Disclosure Regulations and under the terms of our Commerce Commission Final Authorisation. Adding competition indicators places another regulatory burden on the gas distribution sector – and ultimately further costs on consumers.
Q3	Extensive work has been completed on the competitiveness of the gas distribution sector. For a summary see section II.3: Competition analysis, Authorisation for the control of supply of natural gas distribution services by Powerco Ltd and Vector Ltd, Draft decisions paper, 4 October 2007, pp 32 - 50.
Q4	The document referenced in question 3 also assesses the degree of interfuel competition.
Q5	Powerco believes performance indicators would be a useful tool to help small consumers make informed decisions, but any work in this area

	must not duplicate existing initiatives. For example, consumer.org.nz contains information comparing gas and electricity, and the Gas Association of New Zealand has been doing some work in this area. Any tool to compare fuel sources should also be as accurate as possible, and take into account the effect of appliance efficiency[2] and government subsidies for appliances and their installation.
Q6	Comments are summarised in table one.
Q7	*Connection/ disconnection* The description of issues on page 60 would be strengthened by better recognising the importance of safety in connection and disconnection. The document states GIC's principle objective is to ensure gas is delivered is a 'safe, efficient and reliable manner' – safety being the most important priority. The document states on page 61 that "there is little information available on the nature and efficiency of distribution or metering arrangements" and that it may be appropriate to review this. The Commerce Commission has reviewed metering arrangements and the GIC may find this analysis useful.
Q8	*Assessment of connection/ disconnection* Powerco does not agree with the proposed disconnection and connection regulatory solution. The GIC argues that retailers have an incentive to quickly disconnect vacant proprieties as they have to bear the cost of fixed pipeline charges, and this leads to inefficient disconnections. The proposed solution is for distributors to stop fixed line charges 14 days after the property is vacated. Powerco disagrees with this proposal for safety reasons. Whilst there are commercial implications for connection and disconnection processes, safety must be the first priority and can not be compromised. Extensive work has been undertaken by the gas industry and GANZ to develop protocols around disconnection and reconnection processes focusing on safety. The 14 day rule will only work if a physical disconnection is undertaken along the guidelines under the protocol. Unlike electricity, gas can not just be switched off and a set of actions must be undertaken to ensure that the site is left in a safe state. Disconnections require a physical action of turning the riser valve off, disconnecting the GMS and capping at the riser. Both Vector and Powerco follow this process. This is a cost that requires recovery. Powerco views vacant sites as a retailer commercial position with its end users. Retailers assess risk and manage this within their contracts with customers. The fixed line charge also provides an incentive for the retailer to disconnect properties after unsafe periods of time. Powerco's fixed line

[2] This should be measured efficiency, not the Energy Star rating. Tests in New Zealand have shown significant discrepancies between the performance of heat pumps in New Zealand conditions and the laboratory test results that advertising is based on.

	charge for a gas customer using less than 15 GJ of gas per year is 10 cents per day. If the property, for example, was vacated for three months the fixed line charges amount to around $9. Powerco believes that this is a cost small enough to be managed by retailers. Therefore disconnection (and reconnection) must happen for safety reasons when a property is vacated. This action is a necessary cost of supplying gas, and retailers should manage this risk within gas contracts. The fixed line charge also acts as an incentive for retailers to arrange for vacant properties to be disconnected.
Q9	No comment
Q10	Powerco does not oppose regulatory solutions, especially if they are focused on safety. Problems with the industry solution have already been outlined in question eight. Consequently, Powerco does not agree with the proposed regulations. Drivers in this area appear to be commercially driven rather than based on safety first.
Q11	No comment.
Q12	Comments are summarised in table one.
Q13	*Costs* The document correctly states that while the Commerce Commission is responsible for Part 4 of the Commerce Act, the GIC has a role in relation to some costs, and specifically mentions metering charges and connection/ disconnection costs. Powerco believes that both metering and connection/ disconnection charges reflect supply costs. Powerco supports greater competition in the gas industry, and the ability of consumers to switch retailers is a core component. Early terminations of supply should not be stopped, but end consumers must understand that this may incur a cost in some contracts. The GIC need to ensure that this cost is reasonable, and not prohibitive in nature. While disconnection and connection costs may seem expensive to consumers, this is due to the high safety standards which can not be compromised. Another issue between the retailer and the consumer is the cost of the gas fitter supplying a certificate of compliance (page 68 under ‘Balance between interested parties’).
Q14	*Costs and billing and payment:* Metering and connection/ disconnection charges reflect the cost of business, and Powerco does not believe ‘metering issues may require further consideration as part of a separate work stream’.
Q15	No comment.
Q16	No comment.
Q17	No comment.

Q18	Comments are summarised in table one.
Q19	The document states "feedback in consumer forums has suggested a role for consumer advocates in the complaints resolution process"[3]. The Electricity and Gas Complaints Commission provides an excellent forum to support small consumers. If the GIC wishes to consider introducing consumer advocates, quantitative evidence of the issue should be provided.
Q20	Powerco agrees with the document in that "the joint GIC and Electricity Commission project regarding the approval of a joint complaints resolution scheme is now the primary vehicle for delivering an effective complaints resolution scheme"[4]. Powerco stated in its submission to the Electricity and Gas Complaints Commission in August 2008 that it supported the existing scheme as it would be more efficient to adapt the scheme, than establish a new one through rules and regulations[5].
Q21	No comment.
Q22	Powerco believes that it already provides the information required by complainants. Consequently, Powerco does not believe there is a need for this.
Q23	No comment.

The GIC may also wish to consider the following changes:

- Powerco's understanding is that the distributor, rather than Energy Safety, is responsible for the safety of a disconnection. Energy Safety has responsibility for the policing the regulations around gas safety (eight bullet point on page 57).
- The document states local councils are a key party as they issue resource consents for gas pipelines' (last bullet point on page 57). Gas distribution does not (typically) require resource consent from any territorial local authority, reducing the interactions with local councils.
- The meter owner and supplier of meter reading is also a key party (page 67 under 'Key parties').

[3] Fifth paragraph, page 82.
[4] Table 11, page 83.
[5] Powerco submission to Electricity and Gas Complaints Commission on "Proposal for changes to the scheme documents to comply with the proposed scheme requirement from the Electricity Commission and Gas Industry Company for approval of the scheme", 29 August 2008.

Table One: Comments on expectations

	Consumer expectations
Meaningful choice	1. Suppliers offer a range of products and services for consumers to consider and make informed decisions. 2. There is ready access to good quality, comprehensive and easy to understand information on gas options, possible gas suppliers and alternatives to gas. 3. From the options available in the market, consumers are readily able to choose their energy form and supplier, and to modify their choice.
Connection and disconnection	4. The connection to supply is safe, reliable and "fit for purpose", and the connection process is timely and well-managed. 5. Arrangements for termination of the contract and supply disconnection are reasonable, and are undertaken in a timely and well-managed manner.
Gas supply & related services	6. The supply of gas is safe, reliable and "fit for purpose". 7. Other services reasonably required as part of receiving gas supply, such as a call centre and metering services, are readily available and "fit for purpose".
Contractual terms and conditions	8. The contractual terms and conditions of supply of gas to the consumer are lawful, fair and reasonable, and equitable between the parties. 9. The contractual terms and conditions are complete, easy to understand, and clearly set out the respective obligations of the supplier and consumer.
Costs	10. The delivered price for gas supply is fair and reasonable, and is reflective of the cost of supply. 11. The supplier does not impose additional or unexpected costs on the consumer.
Billing and payment	12. Consumers receive timely and accurate bills for gas and associated services, and the bills are easy to understand. 13. Consumers have access to appropriate mechanisms for making payments that take account of consumer circumstances.
Treatment by supplier	14. The supplier is honest and open, and acts with integrity in all its dealings with the consumer. 15. The supplier answers consumers' enquiries about all aspects of their supply, billing and contracting arrangements in a timely, courteous and accurate manner. 16. The supplier does not take any action to alter or terminate the supply of gas without providing reasonable notice to the consumer, and an opportunity for the consumer to remedy any failing on their part which may have triggered that action.
Access to remedies	17. Consumers have access to suitable arrangements for dealing with any complaints in a timely manner, and for obtaining appropriate remedies. 18. Consumers have access to the information necessary to help resolve complaints.

❖ The process of switching (with no (dis)connection) should be included.
❖ Keeping information up to date can be very expensive. The term 'good quality' should balance the benefit of up to date information with the cost of keeping information 'real time'.

❖ Safety is also an important factor in disconnection.

Does 'reasonable' in expectation 16 capture situations when:

❖ retailers have to cut supply under the Gas Regulations 1993 26 (3), which conflicts with this?

❖ distributors have to stop the gas supply under section 7 of the Gas Regulations 1993 for safety purposes, or to preserve the network? Where possible, Powerco would notify customers and retailers, although sometimes this may not be able to happen. Through its Use of System Agreements a distributor can require a retailer to shed load. Note that the proposed critical contingency regulations will not apply for most of these cases and so there is no prevention of load shedding for small and domestic consumers. Also note that the abolishment of the National Gas Outage Contingency Plan (NGOCP) in the proposed critical contingency regulations will mean the bands of load shedding will no longer exist, and consumers can be shed in any order required by the distributor.

❖ The expectations align with Powerco's approach to complaints resolution.