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Submission on Gas Industry Co's Proposed FY2023 Work Programme and Levy

1. This is Vector Limited's (Vector) submission on the Gas Industry Company's (Gas Industry Co) consultation paper on its proposed *FY2023 Work Programme and Levy*. We appreciate Gas Industry Co's engagement with stakeholders on its draft work programme at the Co-Regulatory Forum held virtually on 2 December 2021.

2. Vector welcomes the Market Settings Investigation Workstreams Gas Industry Co intends to undertake, making its proposed Work Programme and Levy for FY2023 probably the most sizeable since its establishment. We expect these Workstreams to provide much-needed certainty and predictability to gas industry participants, and the energy sector more broadly, as they face the challenges and opportunities of the transition to a low carbon energy future.

3. To inform the above energy transition workstreams, we suggest that Gas Industry Co actively consider the recommendations made by the NZ Gas Infrastructure Future Working Group in the Findings Report it issued in August 2021.

4. With a substantial work programme to deliver in FY2023, we believe there is room to streamline or de-prioritise some work items which we identify in this submission. This would enable Gas Industry Co to focus on the energy transition workstreams and other high priority issues.

5. While we look towards the future, gas industry participants continue to face the practical challenges and risks created by the COVID-19 pandemic. We appreciate Gas Industry Co's ongoing coordinating entity role in the gas sector's response to COVID-19, which helps participants address ongoing and emerging issues in a timely manner.

6. We set out our responses to the consultation questions below using the submission template provided by Gas Industry Co for this consultation.

7. We are happy to discuss any aspects of this submission with Gas Industry Co. Please contact Luz Rose (Senior Regulatory Partner) at Luz.Rose@vector.co.nz or 04 803 9051.

8. No part of this submission is confidential, and we are happy for Gas Industry Co to publish it in its entirety.

Yours sincerely
For and on behalf of Vector Limited

J. Tipping

Dr James Tipping
GM Market Strategy/Regulation

Questions

Submission prepared by: Vector

(Contact Luz.Rose@vector.co.nz in the first instance)

Question		Vector's comment
Q1:	Do submitters agree with Gas Industry Co's assessment of the strategic context?	Vector broadly agrees with Gas Industry Co's assessment of the strategic context for the delivery of its proposed substantial work programme for FY2023. We agree that gas has an ongoing role to play to support the energy transition, including providing flexibility and ensuring that gas is available for electricity generation when it is required, particularly during dry winters. Gas remains a fuel of choice for many homes and businesses. Its long-term replacement will have to be carefully worked through to ensure cost recovery for long-lived investments, and that consumers are not disadvantaged. The affordability of gas and electricity is a key component for ensuring a successful transition to a low carbon energy future.
Q2:	Do submitters agree with Gas Industry Co initiating and progressing the workstreams identified in the Gas Market Settings Investigation final report (detailed in section 3.2)?	Yes, Vector generally agrees with Gas Industry Co initiating and progressing the workstreams identified in the Gas Market Settings Investigation final report. These workstreams include: • Developing a Gas Transition Pathway; • Improving commercial arrangements supporting electricity security of supply; and • Four other workstreams to improve the operation of the gas sector during the energy transition: - Information availability to help enable participants and users to predict and plan better; - The regulatory framework for gas pipelines;

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		- How gas supports energy needs that cannot be met by electricity (including green gases, avoiding and reducing emissions, and the viability of emissions capture); and - Additional mechanisms to ensure gas is available to industrial users in unexpected tight situations. We believe the above workstreams would go some way to reducing uncertainty and increasing predictability for gas industry participants as the energy transition unfolds. While we recognise that Gas Industry Co is not an advocate or lobbyist for the gas industry, we encourage it to play an 'active facilitator' role to optimise industry participants' participation in, and input to, the above workstreams.
Q3:	Do submitters have any comments on the process for developing Gas Industry Co's FY2023 Work Programme and Levy?	Vector generally agrees with the process for developing Gas Industry Co's Work Programme and Levy for FY2023. It is a well-established process based on the principles of economic efficiency, beneficiary pays, rationality, simplicity, equity, and revenue sufficiency.
Q4:	Do you consider there to be any other items that should be included in Gas Industry Co's intended Work Programme for FY2023? If so, please describe the work required and how that work achieves the outcomes sought under the Gas Act and GPS.	**<u>Gas pipeline businesses' recommendations to support the energy transition</u>** Vector suggests that Gas Industry Co consider the recommendations made by the NZ Gas Infrastructure Future Working Group (Future Working Group) in its August 2021 Findings Report[1][2] to inform the Market Settings Investigation Workstreams. In particular, we suggest that Gas Industry Co actively consider the Future Working Group's recommendations around the regulatory treatment and cost

[1] The NZ Gas Infrastructure Future Working Group comprises New Zealand gas distribution businesses as members, energy regulators and major gas users as observers, and consulted parties. The development of the Working Group's Findings Report was independently facilitated by farrierswier.

[2] The Working Group's Findings Report made short-term and longer-term recommendations for government to consider when developing policy in response to the Climate Change Commission's final advice.

Question		Vector's comment
		recovery of long-lived pipeline assets, which Vector endorses. This would ensure this workstream would gain immediate 'traction' in setting the context for the identification of the issues and development of options for New Zealand's gas pipeline infrastructure, avoiding duplication of work across regulators and the industry. We believe the following Future Working Group recommendations[3] are highly relevant for Gas Industry Co's development of: 1) the regulatory framework for gas pipelines, 2) the proposed Gas Transition Pathway, and 3) its input into the Government's proposed national energy strategy: *R4. Along with the Commerce Commission, immediately start to consider the future economic regulation arrangements, including by:* *a. considering whether to delay, for a short period, the next DPP determination – currently planned for May 2022, with a draft expected around mid-February 2022 – and if so how this could be affected* *b. during the delay period, making policy positions that provide appropriate direction to the Commerce Commission so as to promote both its emission reduction objectives and the long-term interests of energy consumers* *c. considering the longer-term potential consequences for the 'regulatory compact', including the risk of asset stranding and incentives for needed ongoing investment* *d. acknowledging that the current economic regulation framework applying to gas pipelines is not likely to be fit for purpose and consider the rationale (if any) for economic regulation applying in the future, mindful that:*

[3] https://gasischanging.co.nz/assets/uploads/Gas-infrastrucutre-future-working-group-Findings-report-FINAL-August-2021.pdf, pages 27-28

	Question	Vector's comment
		i. *market power is likely to reduce if either a winddown or repurposing scenario occurs and so the traditional case for economic regulation may no longer apply, and* ii. *gas pipelines may be providing an essential service during transition that justifies some economic regulation.* *In the interim, the Commerce Commission should proactively consider whether the gas infrastructure business*[es] *have adequate incentives to invest in and maintain gas pipelines to ensure appropriate service levels in the short term.* *R5. Actively contribute to and guide further industry-led analysis, including on:* *a. the impact of falling demand and revenues, including on financial sustainability of gas infrastructure businesses, and* *b. the processes, resources and likely costs required to implement the winddown scenario including implementing a plan to ensure consumers have switched to an alternative energy source so as to enable gas supply to be switched off.* *The government could request that this work be led by the gas infrastructure businesses in consultation with MBIE.* In addition, we believe Gas Industry Co can play a role in increasing stakeholder awareness of the Findings Report – to inform ongoing and future discussions on the role of gas in the energy transition. For example, it can publish the Findings Report on the Gas Industry Co website and/or in its newsletter.
Q5:	Do you consider there to be any items that should be excluded from Gas Industry Co's intended Work Programme for FY2023? Please provide reasons for your response.	Vector believes there is room for Gas Industry Co to 'de-prioritise' or exclude some work items from its proposed FY2023 Work Programme so it can focus on higher priority or more urgent issues. We suggest that Gas Industry Co:

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		• de-prioritise some of the "Type A" (i.e. high priority) issues it identified for consideration by the proposed Advanced Gas Metering Infrastructure Group (AGMI Group); and • not recommend the inclusion of 45kg bottled LPG prices in Powerswitch. We discuss our reasons below. **De-prioritising some Type A issues for consideration by the AGMI Group** In its consultation paper on *Advanced Gas Metering Infrastructure – Submissions Review and Recommendations*, issued on 17 December 2021, Gas Industry Co proposes a set of 16 Type A AGMI issues for consideration by the proposed AGMI Group.[4] The AGMI Group will be tasked with developing and recommending to Gas Industry Co a set of minimum standard guidelines (AGMI Guidelines) for the deployment of advanced gas meters into the New Zealand retail gas market. By any measure, the consideration of 16 AGMI issues is an unreasonably heavy workload for a group that will not operate full time. This could undermine the AGMI Group's ability to deliver tangible recommendations that enable the delivery of consumer benefits, enabled by smart meters, in a timely manner. As such, we suggest that the AGMI Group be tasked to focus on a core set of the highest priority Type A issues as a matter of urgency and adopt a 'watching brief' in relation to the other Type A issues.

[4] The 16 AGMI issues classified as Type A by Gas Industry Co include: 1) minimum standards and file formats, 2) access to, use and security of, customer data, 3) streamlined process for customer requests for consumption data (Electricity Price Review [EPR] Recommendation C3), 4) ensuring distributors have access to smart meter data on reasonable terms (EPR Recommendation E3), 5) potential process and registry changes, including switching procedures, 6) Downstream Reconciliation Rules, 7) alignment of gas metering service agreements (GMSAs), 8) GMSA payment provisions, 9) AGMI redundancy risk, 10) Preferred Supplier provisions in GMSAs, 11) centralised data provider – developing minimum standards without moving to a centralised model, 12) open access AGMI systems, 13) technology standards, 14) remote disconnections and reconnections, 15) advanced gas metering consumer education, and 16) D+1.

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		We suggest that addressing the following issues, which we believe will deliver the most and immediate value for consumers, be given the highest priority by the AGMI Group: • Potential process and gas registry changes (including switching procedures) • Downstream Reconciliation Rules - incorporating file formats for market reconciliation - incorporating D+1. • Ensuring distributors have access to smart meter data on reasonable terms (EPR Recommendation E3). We will discuss our views on AGMI issues in detail in our forthcoming submission on Gas Industry Co's AGMI recommendations (due 14 February 2022). **Not pursuing the inclusion of 45kg bottled LPG prices in Powerswitch** Gas Industry Co has yet to decide on the proposed inclusion of 45kg bottled LPG prices in Powerswitch, which formed part of the development of the new Market Guidelines for *Raising Consumer Awareness of Utilities Disputes and Powerswitch*.[5] We reiterate our significant reservations about this proposal, which would only increase the regulatory burden without significant net consumer benefits. In the relatively small LPG market, bottled LPG pricing is already transparent and non-complex (and the value of an LPG bottle is low), and customers can easily 'switch' between numerous providers.

[5] Vector supported Gas Industry Co's development of guidelines which extended some of the EPR recommendations to the gas market. These include new Market Guidelines for: 1) *Dealing with Vulnerable Consumers*, 2) *Raising Consumer Awareness of Utilities Disputes and Powerswitch*, and 3) *Saves and Winbacks*. We believe these Market Guidelines would help promote consistency and efficiency in addressing consumer issues common to the gas and electricity sectors while allowing flexibility for gas market participants to innovate and better navigate the energy transition.

Question		Vector's comment
		As indicated in a previous Vector submission on the proposed Guidelines, dated 22 March 2021: *…For a price comparator service to be effective, it should be able to compare 'apples to apples' which could be challenging when it comes to LPG contracts as these can differ from one LPG retailer to another. Building a highly complex website functionality for this purpose, including maintaining it and keeping information up to date (through regular updates from LPG retailers) would be very costly. Any functionality of lesser capability would only add to the costs of bottled LPG without significant consumer benefits…We suggest that any new/additional compliance costs for LPG retailers arising from this proposed requirement be factored into Gas Industry Co's assessment.* We therefore suggest that Gas Industry Co not pursue this proposal any further in FY2023. While electrification is expected to intensify, the use of gas is expected to decline during the energy transition. In considering and implementing any new arrangements, we urge Gas Industry Co to focus on enabling participants to navigate the transition smoothly rather than impose more prescriptive arrangements that increase costs without overriding consumer benefits, therefore diminishing energy affordability.
Q6:	Gas Industry Co is particularly interested in industry comment on the forecast gas volumes - do stakeholders consider the 185 PJ projection reasonable? If not, what would they consider an appropriate gas volume estimate to be? ***NOTE – any submissions provided in response to this question will be treated as confidential and will not be published.***	[No comment.]

Question		Vector's comment
Q7:	Do you have any comment on the proposed levy rates for FY2023?	The funding requirement to deliver Gas Industry Co's proposed FY2023 Work Programme totals $6.34 million, representing a year-on-year increase of $0.34 million or 5.7%. The proposed levy of $4.58 million for FY2023 that will partly fund the work programme represents 22.30% and 25.57% increases in wholesale and retail levies, respectively (with the rest to be funded by market fees). These cost increases are a step change in the context of Gas Industry Co's relatively flat levy profile over the past seven years or so. To help reduce future cost increases, we encourage Gas Industry Co to de-prioritise and not pursue some work items (or pursue them at a later date), including those identified in our response to Q5. These include de-prioritising some of the Type A issues for consideration by the AGMI Group and not pursuing the proposed inclusion of 45kg bottled LPG prices in Powerswitch, among others.