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Gas Industry Company
Level 8, The Todd Building
95 Customhouse Quay
Wellington

Vector Limited
101 Carlton Gore Rd
PO BOX 99882
Auckland 1149
New Zealand
+64 9 978 7788 / vector.co.nz

Submission on Extending the Electricity Price Review's Final Recommendations to the Gas Market – Submissions Analysis and Recommendations

Introduction

1. This is Vector Limited's (Vector) submission on the Gas Industry Company's (Gas Industry Co) consultation paper on *Extending the Electricity Price Review's Final Recommendations to the Gas Market – Submissions Analysis and Recommendations*, dated 8 March 2021.
2. Vector broadly supports Gas Industry Co's recommendations on the final Electricity Price Review (EPR) recommendations that can be extended to the gas market. We particularly welcome Gas Industry Co's recommendation to undertake an assessment of the cost and complexity of adding LPG pricing to Powerswitch, an area we have significant reservations about. We are happy to participate in, and provide input to, this assessment.
3. We set out our responses to the consultation questions below and make a few suggestions. Our views are informed by our experience and insights from the Electricity Authority's ongoing implementation of the EPR recommendations that are relevant to its operations.

Comments on Gas Industry Co's recommendations

Q1: Do you support the GIC's final recommendations in section 4.4 of this report? Please address your comments in each relevant recommendation separately (as set out below).

Please note that GIC is not consulting on the EPR recommendations set out [in] sections 4.2 and 4.3. These sections cover (respectively) EPR recommendations that will not be extended to the Gas industry, and EPR recommendations that GIC considers do not require further industry consultation.

4. Vector agrees, in principle, with Gas Industry Co's final recommendations in section 4.4. of the consultation paper, with reservations on the addition of LPG pricing to Powerswitch for the reasons indicated in our response to EPR recommendation C1 below.
5. In the process of developing guidance documents as part of its implementation of the identified EPR recommendations in the gas market, we suggest that Gas Industry Co take account of the following considerations, among others:
 - a. gas being a 'fuel of choice' for residential and small business consumers rather than an essential service such as electricity, e.g. what is a 'must' for an electricity service could be 'optional' for gas. This must be considered in the context of New Zealand's transition to a low emissions economy;
 - b. the costs of the proposed requirements on industry participants relative to the benefits to consumers, particularly those in hardship, e.g. impact on innovation that benefits

consumers, magnitude of the regulatory burden, the proportionality of the solution relative to the importance or criticality of the problem, etc.;

- c. the need to clearly define or clarify the following terms to avoid any doubt or confusion:
- the “dual fuel providers” and “stand-alone LPG retailers” that will be captured by the proposed guidance documents, e.g. would a gas-only retailer providing retail services to dual fuel retailers be subject to the new requirements? We suggest that Gas Industry Co’s draft guidance documents provide an indicative list of the industry participants that are likely to be captured by these definitions;
 - the consumers for whom the proposed measures are intended to benefit, i.e. the definition of “residential consumers” and “small business consumers” for the purposes of implementing the selected EPR recommendations; and
 - in the case of LPG, whether both 45kg bottles (installed in homes and small business premises) and 9kg bottles (commonly purchased from bottle swap retailers) are covered, or only the former;
- d. the unique characteristics of the LPG retail market, e.g. an LPG bottle having the characteristics of a ‘product’ more than a ‘service’;
- e. using stakeholder forums as part of Gas Industry Co’s consultation processes going forward, in addition to seeking formal submissions. The forums used by the Electricity Authority in the development of its *Consumer Care Guidelines* and guidelines for improving consumer awareness of Utilities Disputes and Powerswitch could provide useful precedents and insights; and
- f. providing reasonable consultation timeframes. Consistent with good regulatory practice, stakeholders should be given a reasonable amount of time to enable them to give the proposed guidance documents careful consideration and make informed submissions. For example, while recognising that this consultation is only an initial discussion of Gas Industry Co’s recommendations, the two-week consultation timeframe is tight and is a deviation from the expected/standard four- to six-week consultation period. ‘Rushed’ consultations could limit some stakeholders’ engagement with consultation processes, given there are multiple other ongoing consultations that have implications for the energy sector, e.g. the Climate Change Commission’s consultation on its *2021 Draft Advice* to the Government on climate action in New Zealand. Where a consultation timeframe must be truncated, we suggest that Gas Industry Co state the reason for doing so in the consultation notice or consultation paper.

EPR recommendation B6:

Set mandatory minimum standards to protect vulnerable and medically dependent consumers.

6. Vector supports Gas Industry Co’s recommendation to extend this EPR recommendation to the gas market. We support the EPR’s focus on energy hardship and agree that consideration needs to be given to how gas businesses can be enabled to better support customers who are experiencing energy hardship.
7. We note the Electricity Authority’s use of a ‘layered approach’ in the development of its *Consumer Care Guidelines* – an approach that we support. This approach is intended to promote flexibility and only provide prescriptive guidance when it is needed to offer more protection and minimise harm to consumers.

8. For efficiency reasons, Gas Industry Co could consider bringing gas businesses and consumers into the framework of the Electricity Authority's *Consumer Care Guidelines* via an agreement between the two regulators, i.e. avoid a duplicate set of guidelines and confusion.

EPR recommendation B7:

Prohibit prompt payment discounts but allow reasonable late payment fees.

9. Vector supports this EPR recommendation being applied to dual fuel retailers, which will give customers a fairer deal across the energy market. We do not currently offer prompt payment discounts (PPDs). For parts of our gas businesses that have a retail interface, we offer pensioner customers a 10% discount.
10. We note Gas Industry Co's observation that PPDs are not a feature of the LPG market and its decision not to make a recommendation in relation to LPG on this issue.

EPR recommendation C1:

Merge the Electricity Authority and Consumer NZ price comparison websites: Whatsmynumber and Powerswitch.

11. Vector does not have issues with the proposal to merge the Whatsmynumber and Powerswitch price comparison websites. However, we do not believe it is necessary to capture information on bottled LPG prices (and LPG services and retailers) in the combined website or the current Powerswitch website for the following reasons. We discussed these reasons in more detail in our submission on Gas Industry Co's assessment of extending the EPR recommendations to the gas market¹ and submission on Gas Industry Co's proposed work programme and levy for FY 2021-2022.²
 - a. Pricing is non-complex and is already transparent in the relatively small market for bottled LPG. Consumers are faced with a single price point or a standard price range for particular LPG products. The price of a 9kg cylinder is usually displayed at retail outlets where payment is made instantaneously. The price of refilling a 45kg cylinder is readily available from retailers (e.g. obtained through the query section on their websites), akin to pre-paid pricing.
 - b. Switching costs in the competitive bottled LPG market are very low, if not negligible. We disagree that there is no readily available means of comparing prices between bottled LPG retailers. Consumers can easily 'vote with their feet' by walking/driving to the nearest petrol station where the displayed price for a 9kg cylinder is lower than other outlets, or contact LPG retailers through their websites (or information provided on those websites) for the installation of 45kg cylinders.
 - c. The transaction cost of purchasing bottled LPG, and the value of the content of the LPG cylinder itself, are very low (and as mentioned above, already transparent). This may not be overridden by any consumer gains from LPG pricing being made available on a price comparison website. 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

¹ <https://www.gasindustry.co.nz/assets/Consultations/Uploads/Vector-submission-on-Extending-the-Electricity-Price-Reviews-Rec.pdf>

² <https://blob-static.vector.co.nz/blob/vector/media/vector2021/vector-submission-gic-fy2022-work-programme-and-levy.pdf>

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 therefore welcome Gas Industry Co's recommendation to assess the cost and complexity of adding LPG pricing to Powerswitch. We suggest that any new/additional compliance costs for LPG retailers arising from this proposed requirement be factored into Gas Industry Co's assessment. Vector's LPG business (OnGas) would be happy to actively participate in, and provide input to, this assessment.

12. There is a risk that more prescriptive arrangements for the already competitive bottled LPG market could 'squeeze out' or distort the above market-driven incentives that keep LPG pricing transparent and competitive. Instead of focusing on becoming effective competitors (e.g. through innovation in pricing, delivery, and contractual terms), LPG retailers will now have to also focus on complying with, and meeting the costs of, the proposed requirements. We suggest that the above recommended assessment by Gas Industry Co also consider any potential dampening impact of any new requirements on incentives for market competition and innovation.
13. We note Gas Industry Co's recommendation not to investigate open access for reticulated LPG customers as they have alternative energy choices. A similar argument can be applied to bottled LPG customers, who can just as easily switch to other LPG retailers at low cost (see section 11.b) or alternative energy sources such as electricity or distributed generation.

EPR recommendation C2:

Improve consumer awareness of Powerswitch and Utilities Disputes.

14. Vector agrees with Gas Industry Co's recommendation that all dual-fuel retailers voluntarily extend the Electricity Authority's guidelines for improving consumer awareness of Utilities Disputes and Powerswitch to all dual fuel and gas-only energy customers.
15. We suggest that Gas Industry Co's guidance document for the implementation of the above EPR recommendation in the gas market include 'in principle' guidance with practical suggestions (rather than prescriptive information). This would allow industry participants to find the most efficient way of complying with this new requirement.
16. Based on our engagements with the Electricity Authority during the development of its guidelines for improving consumer awareness of Utilities Disputes and Powerswitch, in conjunction with stakeholders, we suggest that Gas Industry Co:
 - a. apply this requirement to only a subset of communications to customers, rather than to all communications;
 - b. specify the nature rather than the form of communications, providing industry participants with flexibility on how they can best comply with the new requirement and allowing innovation in service delivery; and
 - c. separately specify when consumers need to be aware of Utilities Disputes and Powerswitch, i.e. information on both providers should not be grouped together. As indicated in the consultation paper, Gas Industry Co's recommendations for stand-alone LPG retailers and gas distributors only relate to the Utilities Disputes service (as LPG suppliers and gas distributors are not included in Powerswitch).
17. We further suggest that the proposed guidance document include visual examples to assist participants in meeting the intent of the new requirement (not to replace their ability to innovate), and updated on a regular basis or as may be necessary.

EPR recommendation C5:

Prohibit saves and win-backs.

18. Vector supports Gas Industry Co's proposal to extend the EPR recommendation prohibiting saves and win-backs to residential and small business gas customers. We believe this will support market competition and provide a fairer deal and greater choice for gas customers.
19. We note Gas Industry Co's statement that it "is not aware of any stand-alone LPG retailer conducting saves and win-back activity – there is no LPG customer register to enable this behaviour".
20. In addition, the requirement for a physical visit when an LPG customer intends to switch to another retailer is a natural barrier to a win-back activity in the LPG market. On the other hand, a win-back in the retail electricity and natural gas markets only requires the simpler process of changing supplier details in the registry.

EPR recommendation F3:

Update the Electricity Authority's compliance framework and strengthen its information gathering powers.

21. Vector agrees with Gas Industry Co's recommendation not to update its compliance framework but keep a watching brief on changes made to the Electricity Authority's compliance framework and monitor the success (or otherwise) of these changes. In our view, there is a generally high level of compliance in the gas industry, where rules and regulations have been tested and reviewed, and improved over time, e.g. *Gas Governance (Critical Contingency Management) Regulations*. As such, these rules and regulations are now widely and well understood by industry participants.

Concluding comments

22. 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 in the first instance.
23. 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



Neil Williams
GM Market Regulation