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Vector Limited

101 Carlton Gore Road
PO Box 99882, Newmarket
Auckland 1149, New Zealand
www.vector.co.nz

Corporate Telephone
+64-9-978 7788

Corporate Facsimile
+64-9-978 7799

Greig Hinds
Gas Industry Company
PO Box 10-646
Wellington

Dear Greig

**Submission on Statement of Proposal:
Retail Gas Contracts Oversight Scheme Review**

Introduction

1. Vector Limited ("Vector") welcomes the opportunity to make this submission on the Gas Industry Company's ("GIC") *Statement of Proposal: Retail Gas Contracts Oversight Scheme Review*, dated 6 January 2013.
2. No part of this submission is confidential and Vector is happy for it to be made publicly available.
3. Vector's contact person for this submission is:

Luz Rose
Senior Regulatory Analyst
04 803 9051
Luz.Rose@vector.co.nz

The GIC's Statement of Proposal

4. Vector generally supports the GIC's Statement of Proposal ("SoP") which would maintain the voluntary and non-regulated nature of the Retail Gas Contracts Oversight Scheme ("the Scheme").
5. We believe there is no reason for greater prescription under the Scheme because, as the GIC stated, the gas retail market is already competitive. Over 95% of gas customers are connected to gas gates where there are at least six retailers.¹

¹http://gasindustry.co.nz/sites/default/files/publications/new_zealand_gas_story_second_edition_december_2013_2.pdf, page 112

6. From all indications during the course of this review, there is substantial agreement amongst stakeholders that a voluntary arrangement is the approach the GIC and industry participants wish to take.
7. We support the GIC's intention to continue engaging with the Electricity Authority ("the Authority") in relation to the Authority's Minimum Terms for domestic contracting arrangements. We also support the GIC's continuing engagements with the Ministry of Business, Innovation and Employment ("MBIE") and the Electricity and Gas Complaints Commissioner ("EGCC") to ensure the Scheme's alignment with MBIE and EGCC's work on consumer issues, including complaints on the supply of bottled LPG.
8. The above engagements would ensure that conflicting or inconsistent minimum retailer requirements across electricity and gas under both schemes are avoided. This would reduce overlaps and unnecessary costs for industry and consumers.

Responses to specific questions

Q1: Do you agree with the proposed purpose of the Oversight Scheme?

9. Vector has no objection to the proposed purpose of the Scheme.
10. We particularly note that one of the Scheme's purpose is to "[r]eflect and respond to current and future market structures". We believe this would ensure that contracting innovation is not stifled, enabling retailers to provide more competitive services to consumers.

Q2: Do you agree with the Scope of the Scheme?

11. Vector agrees with the GIC's proposal not to extend the Scheme's coverage to LPG contracts, including contracts for LPG supplied over reticulated networks. We agree with the GIC's assessment that a "the vast majority of LPG retailers are covered by the Scheme and typically these retailers want a degree of consistency between their electricity, gas and LPG terms".
12. We agree that the Scheme need not expressly state a 10TJ limit, given that the 'effective limit' of the Scheme is much lower than this level. The experience of our retail business, OnGas, is consistent with the GIC's observation that many consumers approaching the 10TJ threshold are not on standard contracts (i.e. they are on negotiated contracts) and are therefore not covered by the Scheme.
13. Consistent with the GIC's view, we do not consider it necessary for special terms to be formally assessed under the Scheme. The GIC considers that the assessor "can comment on special terms which it considers would be of interest to the GIC given

the purpose of the Scheme". We suggest that the final SoP make it clearer that the purpose of those comments is to provide the relevant retailer guidance on how it could further align its standard contracts with the retail contract benchmarks developed by the GIC ("the Benchmarks"). And that they are in no way binding on that retailer.

14. We further agree that the Scheme should not cover "limited time offers". As the GIC indicated, by the time the assessment results are published, these offers would no longer be available. This would make their inclusion in the Scheme impractical and costly without any overriding benefits to consumers.

Q3: Do you support the proposed RCEs?

Q4: Do you support the proposed arrangement of outcome based Benchmarks and Interpretations sitting under the RCEs? Or would you prefer Principles and Minimum Terms? Why?

Q5: Do you agree that there should be scope for Gas Industry Co and industry to amend the Benchmarks under the Scheme and provided the Benchmarks support the RCEs?

Q6: Do you have any comments on the proposed amendments to the Benchmarks and Interpretations?

15. Vector has no objection to the proposed high-level Reasonable Consumer Expectations ("RCEs") which are based on the Electricity Authority's RCEs and are intended to sit above the Benchmarks. We continue to encourage the GIC to align the Scheme, as well as its other initiatives, with those of the Authority and other regulators to ensure regulatory consistency and avoid unnecessary implementation and compliance costs.
16. We prefer the adoption of RCEs rather than the alternative of setting more prescriptive minimum terms. Adopting RCEs is more consistent with the voluntary nature of the Scheme.
17. We have no issues with the Benchmarks being amended in the future to align more closely with the proposed RCEs, but any future amendments should be subject to stakeholder consultation(s).

Q7: Do you have any comment on the proposed amendments to the scheme operation?

18. Vector agrees that the current assessment process should not be 'hard wired' into the Scheme. This would provide the GIC and industry participants the flexibility to adjust to future regulatory and market developments in a timely manner. It would remove the need to make major amendments to the Scheme, which could involve lengthy consultations, unnecessarily. However, it is our expectation that the GIC will

not change its interpretation of any of the RCEs in the future without stakeholder consultation(s), i.e. we expect clarity and certainty in relation to any RCE amendments.

19. We agree that a full independent assessment does not have to be undertaken annually. All contracts under the Scheme have now been assessed to be in "substantial alignment" with the Benchmarks, following three annual assessments. And as indicated in the SoP, substantive amendments to retail contracts are unlikely to occur in the next few years. Any future annual assessments would therefore not deliver significant benefits to consumers.
20. A full assessment every three years (instead of annually), with the GIC conducting a review after each full assessment, is appropriate. This approach is consistent with the non-regulated nature of the Scheme.
21. We have no issues with the GIC undertaking assessments in between full assessments on an 'as required' basis, for example, to take into account major changes in legislative and market settings. Again, these should be subject to stakeholder consultation(s).

Yours sincerely



Bruce Girdwood
Group Manager Regulatory Affairs