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Sent via email: consultations@gasindustry.co.nz

Firstgas Group
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Dear Andrew

Extending the Electricity Price Review recommendations to the gas market

Firstgas Group welcomes the opportunity to comment on the Gas Industry Company's (GIC) consultation paper "*Extending the Electricity Price Review's Final Recommendations to the Gas Market – An Assessment*" released on 6 November 2020.

We support the GIC's proactive assessment of the recommendations from the Government's Electricity Price Review (EPR) and the possible application to New Zealand's gas sector. We believe that the GIC has established a sound assessment methodology, which is linked to the objectives of the Gas Act 1992 and the Government Policy Statement¹ that oversees the sector and the GIC's role as co-regulator.

Firstgas Group generally agrees with the GIC's assessment of the application of the EPR recommendations to the gas sector² and our responses to the consultation questions are provided in **Attachment 1**. We agree that there are several similarities and linkages between the electricity and gas sectors, and the issues facing electricity customers are often similar to those of natural gas and LPG customers (particularly when customers source multiples fuels from their energy retailer). However, there are equally enough differences that require the GIC to step back and assess if the same issues are actually present in the gas sector.

There are a number of areas where the GIC is undecided on the application of the EPR recommendations to the gas sector.³ In these cases, we strongly recommend that the GIC first review and analyse aspects of the gas sector, to understand if there is a specific problem that needs to be addressed. Only if a problem has been identified and assessed, should the GIC look to what action could be undertaken to resolve the problem.

If you have any questions regarding this submission, please contact me on 027 472 7798 or via email at karen.collins@firstgasgroup.co.nz.

Yours sincerely

Karen Collins
Regulatory and Policy Manager

¹ Government Policy Statement on Gas Governance 2008.

² As set out in Appendix I of the consultation paper.

³ C6, E3, E4, F1, F3 from Appendix I of the consultation paper.



Attachment 1: Consultation questions



Question	Firstgas response
<p>Q1) Do you support the role of the CAC being extended to Gas markets for the benefit of residential and small business Gas consumers? If so, when should it occur?</p> <p>What measures should GIC be taking to better engage with residential and small business Gas consumers?</p>	<p>Role of consumer advisory council</p> <p>Firstgas Group supports the role of the consumer advisory council (CAC) being extended to consider residential and small business gas consumers. As the consultation paper notes, many customers source multiple energy sources (electricity, natural gas, and / or LPG) from a single energy retailer and can therefore provide useful insights that will benefit both the gas and electricity sectors. We believe that it would be useful for gas consumer views to be incorporated in within a year of the CAC being formally established.</p> <p>We also consider that the CAC should focus on understanding what are the benefits that customers seek and derive from their energy usage, rather than the specific fuel type. This will help shape the issues that are of strong importance to energy consumers.</p> <p>Better engagement with consumers</p> <p>To help the GIC better engage with residential and small business gas consumers, we encourage the GIC to first gather information on what issues and matters are of importance to these consumers. This insight can be gathered through a number of options – for example, customer surveys, engaging with retailers, complaints data from Utility Disputes Limited.</p> <p>By understanding what is important to gas customers, the GIC can then review what engagement measures (where required) are best suited to meet the identified needs of these consumers.</p>
<p>Q2) Do you support the extension of the energy hardship initiatives in B1- B6 and B8 to include Gas (please address each separately)? Do you support the extension of the electricity market arrangements on PPDs to Gas?</p>	<p>We support the extension of the energy hardship initiatives to include gas. As noted above, it is more helpful to focus on what customers get / need from their energy, rather than the energy type.</p> <p>B6: Vulnerable and medically dependent consumers</p> <p>We support the, in principle, extension of minimum standards to gas consumers. However, we urge the GIC to consider how the Electricity Authority (EA) guidelines could be utilised by gas retailers – i.e., is the same level of data kept on customers, given no central registry. Different approaches may be required for vulnerable customers who rely on natural gas and LPG.</p> <p>B7: Prompt payment discounts</p> <p>We agree with the GIC's assessment. As many electricity retailers are dual fuel retailers, the prompt payment discounts are likely to have been removed.</p>
<p>Q3) Do you support the extension of PowerSwitch to include LPG (reticulation and bottles)?</p> <p>Do you support GIC's views on the initiatives in C1–C6 (please address each separately)?</p>	<p>C1: Price comparison websites</p> <p>We support improvements to the Powerswitch website, to enable customers to easily compare supplier prices for all energy types, including natural gas and LPG.</p> <p>To ensure this information can be made available, it will be important to consider the affordability and implementation process to make this happen, and how this work can be funded and by who. We note that in the electricity sector there is a levy to administer the system through the Electricity Authority.</p>



The structure of the LPG market also differs greatly from the electricity sector, with different levels of retailers in the market (i.e., franchisees, re-sellers and agents). This will increase the complexity of gathering all the information.

C2: Consumer awareness

We support extending the awareness measures to the gas sector and are already making our gas distribution customers aware of the Utility Disputes service via our website and invoices.

C3: Consumption data

We agree in principle that customers should have access to consumption data. However, it is not clear if there is actual customer demand for this specifically in the natural gas / LPG sector. Also, as the paper notes, there is no centralised data registry for the LPG market. We consider that it would be costly and very difficult to set up such a registry.

C4: Standard terms of access

We support the GIC's finding that the voluntary approach is working well and is appropriate given the small number of distributors in the gas sector. We note that we are currently updating the Use of System Agreement (UoSA) for our gas distribution network and intend to adapt the electricity sector's default distributor agreement terms over to gas, where appropriate.

C5: Saves and win backs

For natural gas, many dual fuel retailers will have already stopped the practice of saves and win backs, therefore also benefitting gas consumers. We suggest the GIC scan the practices of all gas retailers to understand the exact level of buys and win backs still present in the gas sector. Given the GIC's co-regulatory approach, voluntary measures should be utilised first (guidelines and letters to retailers), before a prohibition is explored.

For LPG, we do not consider that the saves and win backs prohibition is required. Competition is working well in the LPG market and the market dynamics and practical practice of returning competitors' gas bottles prevent the type of saves and win backs that you have seen in the electricity market.

C6: Non-switching consumers

We agree with the GIC that its not clear that this recommendation should be extended to the gas sector. We encourage the GIC to assess and discuss the learnings from the Electricity Authority's pilot scheme and share this with the sector.

Q4) Do you support GIC's views in respect of the initiatives in D1 to D4 (please address each separately)?

D1: Wholesale market information

We agree with the GIC's assessment of this recommendation and support the information disclosure workstream that has been established.

As outlined in our prior submission,⁴ Firstgas supports the provision of sufficient information to enable good decisions to be made in the gas market. We believe any extended information disclosure regime should focus on where there is a significant barrier to an efficient and effective gas market,

⁴ *Information disclosure: Problem assessment*, Firstgas submission to the GIC, 9 December 2019, https://firstgas.co.nz/wp-content/uploads/Firstgas-submission_GIC-Information-disclosure-problem-assessment.pdf



due to information asymmetry or transparency. We believe the main information gaps relate to planned and unplanned outages.

D2, D3 and D4

We support the GIC's assessment of these recommendations and agree that these recommendations do not need to be extended to the gas sector.

Q5) Do you support GIC's initial view to not extend the initiatives in E1-E4 to 29 include Gas (please address each separately)?

E1: GPS on transmission pricing

We support the GIC's finding that this recommendation is not needed for gas transmission. Our Transmission Pricing Methodology is guided by the Commerce Commission's pricing principles and as a matter of practice, we consult with our customers on any changes that are made to this methodology.

E2: GPS on distribution pricing

We agree that GIC does not need to extend this recommendation to gas distribution.

E3: Smart meter data

We agree with the GIC's recommendation to revisit this issue following smart meter roll-out by the sector.

E4: Commerce Commission powers

Firstgas does not believe that this recommendation should be extended to the gas sector at present.

The EPR recommended that the Commerce Commission should be able to:

- *“Recommend that the Government remove a distributor's exemption from price-quality regulations if a Commission investigation finds this would be better for consumers*
- *Recommend that the Government declare a distributor exempt from price-quality regulations if a Commission investigation finds such regulation no longer warranted*
- *Recommend that the Government move a distributor from default or customised price quality regulations to individual price-quality regulations if a Commission investigation finds this would be better for consumers*
- *Compare distributors' relative performance when setting price-quality regulations (known in the industry as benchmarking)⁵*

From our perspective, it is not clear that there are any issues with regulated gas pipeline businesses (GPBs) that would warrant such powers being extended to the gas sector. There are only five regulated businesses⁶ and from our view, there is no evidence at present that there is a problem with the regulated regime that is impacting the outcomes for consumers. We consider that a problem would have to be identified, sufficiently defined and consulted on before any action was warranted in this space.

For LPG, we recommend that the GIC review the *2018 report on Retail Competition in the LPG market* to assess if any factors or conditions in the market have changed. Only if any barriers to LPG market entry are identified, should the GIC pursue more work in this area.

⁵ Page 53, *Electricity price review: Final report*, 21 May 2019, <https://www.mbie.govt.nz/dmsdocument/6932-electricity-price-review-final-report>

⁶ One gas transmission business and four gas distribution businesses.



Q6) Do you support GIC's initial view to not extend the initiatives in F1-F4 to include Gas (please address each separately)?

F1: Network access

Firstgas does not consider that action is required in this space. Many of the issues with network access in the electricity sector appear to have arisen because new technologies (like solar PV, batteries etc) have both network and retail impacts. These issues appear less problematic in the gas sector. We have certainly not encountered them in the early stages of smart gas meter deployment or alternative fuel developments (hydrogen and biogas).

We consider that the Commerce Commission regulatory test is suitable for addressing any changes in the regulated gas sector. Taking a watching brief on this matter is a sensible approach.

F2: Consumer protection function

We agree that no action is required on this recommendation.

F3: Information gathering powers

We agree with the GIC assessment that changes should only be made where there are clear benefits from alignment with the Electricity Authority's framework.

F4: Low fixed charge tariff regulations

We agree with the GIC's assessment. This action is not relevant for the gas sector.

Q7) Do you support the extension of the initiatives in G1-G4 to include Gas (please address each separately)?

G1: Energy sector innovation

We strongly support the GIC's view that gas should be incorporated into any Government initiatives that encourage more energy sector innovation. Natural gas, LPG and gas infrastructure has an important and unique role in New Zealand's energy sector now and in the future. Innovation across the energy sector, and all fuel / energy types should be encouraged to support New Zealand's net zero carbon goals.

G2: Security and resilience

We agree with the GIC's recommendation.

G3: Institutional arrangements

We agree with the GIC's recommendation and support the concept of a council of energy regulators. This arrangement ensures awareness of common objectives and workstreams and can help identify the opportunity for joint work programmes. We would find it helpful if there was greater transparency about the matters considered and work programme of the council.

G4: Energy efficiency of buildings

Firstgas welcomes the GIC liaising with the Ministry of Business, Innovation and Employment (MBIE) on the role that gas can play with improving the energy efficiency of new and existing buildings.

In our recent submission to MBIE,⁷ we outlined how it will be important for the Government to keep its options open when it looks to achieve net zero carbon buildings. There are several gas solutions available to assist buildings in achieving net zero carbon emissions, such as the use of green

⁷ *Building for climate change: Keeping options open for getting to net zero*, Firstgas Group submission to MBIE, 9 October 2020, <https://firstgas.co.nz/wp-content/uploads/Firstgas-Submission-Building-for-Climate-Change-Oct-2020.pdf>



hydrogen, biogas, and bio-LPG for hot water heating, cooking and space heating. There are also substantial benefits in keeping options open. These benefits come in the form of potentially lower costs to households (maintaining affordability) and higher quality internal environments (warmer, drier, healthier), as feasible alternatives to electrification take shape overtime. We have been engaging with government and Ministers to discuss the role and benefits of gas.
