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Richard Janes
Independent Chair
Electricity and Gas Complaints Commissioner Scheme
PO Box 5857, Lambton Quay
Wellington

By email: submissions@egcomplaints.co.nz

Dear Richard

**Submission on the Proposed Amendments to the Scheme Document
on Bottled LPG and Other Minor Changes**

Introduction

1. Vector Limited ("Vector") welcomes the opportunity to make this submission on the Electricity and Gas Complaints Commissioner ("EGCC") Scheme's consultation document, *Amendments to the Scheme document – Bottled LPG, acting Chair and other minor changes*, dated 7 November 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:

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Summary of Vector's views

4. Vector considers that including all consumer complaints about bottled LPG in the EGCC Scheme is unnecessary and would not be in the long-term interest of consumers. This is because:
 - the bottled LPG market is highly competitive;
 - consumers in this market face very low switching costs, owing to the presence of multiple alternative suppliers;

- the value of complaints about LPG bottles are likely to be very small and substantially less than the cost of the EGCC Scheme dealing with them; and
 - monitoring all LPG bottle suppliers such as petrol stations and forklift operators would be impractical and too costly. This would have a negative flow-on impact on consumers, with no overriding benefits.
5. Vector **recommends** that the EGCC propose to the Minister of Consumer Affairs (“the Minister”) a class exemption for all bottled LPG suppliers from Scheme membership.
 6. If the EGCC would not pursue this option, Vector **recommends** that the EGCC propose that the Scheme cover the supply of bottled LPG for “residential consumers” only, i.e. 45kg bottles.
 7. Below the 45kg threshold, the monitoring of all small LPG bottle suppliers would be onerous and costly. Along this line, Vector supported a proposal by the Ministry of Business, Innovation and Employment (“MBIE”) in September 2013 to grant a class exemption for suppliers of small LPG bottles (10kg or less) for 20 years.
 8. On the other hand, those who consume volumes larger than 45kg are likely to be commercial and industrial consumers. These consumers have the wherewithal to negotiate special terms with their retailer and address complaints through commercial means.
 9. Vector does not have any objection to the proposed amendments allowing the EGCC Board to appoint a consumer representative as acting Chair when the Chair is unavailable.
 10. We also have no objection to the other proposed minor amendments.

Responses to specific questions

11. The table below sets out Vector’s responses to specific questions in the consultation document.

Questions for submitters	Vector’s comments
1. Do you agree with the Board’s proposal that the Commissioner have jurisdiction to consider complaints about bottled LPG?	No. Vector considers that any proposal to place an entire market or market segment under the Scheme should take into account potential and unintended consequences that may not be in consumers’ long-term interest.

The LPG bottle market is competitive

The LPG bottle market is highly competitive and contestable. There are multiple LPG wholesalers, retailers and suppliers in New Zealand, which consumers can choose from. They are listed on the LPG Association's ("LPGA") website, <http://www.lpga.co.nz/membersFind.php#retailers>.

Consumers of LPG bottles face near-zero switching costs. Consumers not satisfied with the quality or price of the product or service of a bottle supplier can easily purchase from any of the alternative suppliers. For example, they can 'vote with their feet' by buying instead from nearby petrol stations. They have alternative options which consumers of a good or service provided by a single (natural monopoly) supplier do not face.

The competitive pressure of the bottled LPG market serves as a natural protection for consumers for many years to come. This makes it unnecessary for complaints about its supply to be addressed through a structured complaints resolution process. The costs are likely to be higher without overriding benefits to consumers.

Value of complaints is likely to be very small

The value of complaints about LPG bottles are likely to be very small, i.e. equivalent to the 'loss' of one or a few bottles. The cost of addressing these complaints through the Scheme are likely to exceed any benefits to consumers.

Complaints about LPG bottles are readily addressed through low-cost switching to other suppliers. Suppliers can also readily swap the bottles in question with bottles to their consumers' satisfaction (to retain their loyalty). These are far more efficient and effective mechanisms than having every small value complaint go through a structured complaints resolution process.

For example, it costs approximately \$45 to replace a 9kg LPG bottle and \$88-140 for a 45kg bottle, which suppliers can readily do. A Level 1 deadlock complaint through the

EGCC costs \$500 (excluding fixed costs), which has a negative flow-on impact on consumers.

Monitoring all LPG suppliers is impractical and costly

The monitoring of all LPG bottle suppliers, including petrol stations and forklift operators, would be impractical and too costly. It would unnecessarily add to the cost of running the Scheme and to the levies paid by Scheme members, which are ultimately borne by consumers.

LPG prices are higher than natural gas prices

Consumers already face higher prices for LPG compared to natural gas. Including complaints about bottled LPG in the Scheme, which can be addressed more cost effectively through the alternative mechanisms mentioned above, would add to the cost of bottled LPG suppliers. This would not be to the interest of their consumers, particularly those who have no access to reticulated natural gas.

Thresholds are appropriate

If the EGCC would not propose a class exemption for all suppliers of bottled LPG, Vector **recommends** that the EGCC propose that the Scheme cover the supply of bottled LPG for “residential consumers” only, i.e. 45kg bottles.

Below the 45kg threshold, the monitoring of bottled LPG suppliers would not be cost-effective. The portability and very low value of small LPG bottles make them more of a “good” rather than a “service” that is typically provided by existing Scheme members.

Switching costs for small LPG bottle consumers have declined more recently with the introduction of ‘bottle swap’ services, which are increasingly getting popular.

It would also be unnecessary to include consumers of volumes larger than 45kg. They are likely to be commercial or industrial users, who have the wherewithal to negotiate special terms with their retailer.

	<p>In addition, large volume consumers are likely to have provisions in their supply contracts on how to resolve disputes through commercial means.</p> <p><i>There could be consistency issues with other forms of delivered energy</i></p> <p>The inclusion of bottled LPG in the Scheme would raise the issue of consistency between its treatment and those of other forms of 'delivered energy'. These include diesel, coal, firewood and pellets, among others.</p>
<p>2. Do you agree with the Board's proposal that would allow the Board to appoint a consumer representative as acting Chair when the Chair is unavailable?</p>	<p>Vector does not have any objection to this proposal.</p>
<p>3. Do you agree with the other minor changes proposed?</p>	<p>Vector does not have any objection to the proposed minor changes.</p> <p>Vector recommends that section C.26, as proposed to be amended, also include a reference to the promotion of the Scheme on "relevant and appropriate consumer material".</p>
<p>4. Do you have any other comments or concerns about the proposed changes you would like the Board to consider?</p>	<p>Vector recommends that the EGCC consult with the LPG industry, through the LPGA, before making final decisions on its proposal.</p> <p>It would be appropriate for the EGCC to include an industry representative on the Working Group that would review submissions on its proposed changes. This would enable the EGCC to have a clearer understanding of the potential challenges (e.g. monitoring all bottled LPG suppliers) and costs associated with the proposed changes and their impact on consumers.</p>

5. Vector would be happy to discuss with the EGCC any issues in relation to this submission.

Yours sincerely



Bruce Girdwood
Group Manager Regulatory Affairs