

2 November 2012

Commerce Commission
PO Box 2351
Wellington 6140

Attn: Anthony Stewart



Regarding; Vector Limited proposed purchase of Contact Energy Limited natural gas meters.

Thank you for the opportunity to comment on the proposed sale of Contact Energy Limited gas meters to Vector Limited.

Energy Select represent clients for natural gas procurement, energy monitoring and invoice checking. All of our clients require gas metering services which must be purchased via their retailers. We are an independent Energy Management consultancy and do not have an interest in any metering company, network company or gas retailer. We are incentivised by our clients, the consumers of gas, to ensure competitive processes are maintained for the purchase of gas and gas supply services and subsequently for the long term benefit of consumers.

While we consider Vector to be a responsible company and provide metering services in line with current industry standards we do not support their proposed purchase of Contact Energy's gas metering business on the grounds it will substantially lessen competition. We are already concerned at the lack of competition in the gas metering market and believe that the sale of the only non-network owner of meters to a network owner will lead to a situation whereby one supplier has three quarters of the market which may further reduce competition, the result of which is less consumer choice, an environment that does not promote innovation and potentially higher prices, or even cross subsidization of revenue between the monopoly network company and the metering assets.

Our reasons for believing that it will substantially lessen competition are as follows;

1. The exiting of Contact from the market will create a virtual monopoly situation where meter providers supply only into their own network area.
2. It will create the potential to cross subsidise revenue between metering and access to the network.
3. The market has high barriers to entry such as the cost to develop Gas Metering Installations. Replacement of existing assets is already almost non-existent and allowing one participant to have 76% of the market can only further lessen competition. In addition to barriers to entry with network owners being the only meter suppliers it is foreseeable that networks limit connection to their network via their own approved contractors and meter owners.
4. There are currently no independent suppliers of gas metering , i.e. not affiliated with another industry participant.
5. Contact Energy is the only non-network provider of gas metering. As it is a different type of business i.e. a retailer it has a different outlook and a different set of drivers to a network company. This creates 'some' competitive tension as they may offer different services in a competitors network area and also they approach supply in a different manner.

Our claim of a current lack of competition is based on extensive experience in the market place and the following observations:

1. There are already substantial barriers to competition in terms of installation costs incurred with a change of meter provider and this is a major barrier to change.

2. We do not consider that the displacement argument is in reality a strong driver for competition as it is countered by the installation costs that a new supplier faces. This effect is very similar to the situation with electricity networks where it is possible in theory but the costs of duplication of an existing system effectively remove it .
3. The almost non-existent churn rate. This view is supported by regulators in other markets for example the Electricity Authority in New Zealand considers churn to be a major measure of the level of competition.
4. The fact that it is not possible for a consumer to have a direct contract with a meter supplier. What this means is that costs are passed through from meter owner to Retailer and as they are usually bundled it creates a lack of transparency and enables a cost plus mentality in the supplier. This is extremely unlikely to change if all ownership is with network providers whose preferred business model is interposed. Shaun is this right in the gas industry?

Conclusion

Competition is facilitated by;

- transparency,
- a variety of competitor supply models and
- a number of competitors none of whom hold a dominant position.

Energy Select propose the purchase of these assets by Vector will have an adverse effect on each of these criteria for competition.

Consumers interests are best served by a robust and competitive market which results in downward pressure on prices and rewards innovation.

Energy Select believes the request for approval for the sale of gas meters should not proceed in its current form as it does not demonstrate enough, or any, benefit to consumers and that industry deregulation of metering assets and the ability to choose suppliers should be a requirement for the sale to proceed.

Please address requests for further information to Shaun Hayward, Director Energy Select Limited.

Kind regards



Shaun Hayward
Director

Ph +64 9 358 1259
Shaun.hayward@energysselect.co.nz