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**Options for Amending Allocation and Reconciliation Arrangements in the
New Zealand Gas Industry**

***Powerco's submission on the
Consultation Paper to Gas Industry Company***

24 July 2006

Question	Comments
<p>Q1 Do you agree that it is sensible to divide the issues (with downstream and upstream allocation arrangements) into short-term and long-term issues and to advance the short term issues ahead of the long term ones?</p>	<p>We agree in principle it is practical to categorise issues as short term and long term issues; and, within these categories, further prioritise them by importance (urgent & important, urgent & less-important, non-urgent & important, non-urgent & non-important).</p> <p>Caution should be exercised to ensure that any short-term issues, which have inter-related long term impacts or contingencies, do not result in the imposition of additional costs to industry nor detract from resolving the longer term issues -- it is important to consider the wider-implications of all issues.</p>
<p>Q2 Do you agree that compliance with existing arrangements for downstream allocation is poor?</p>	<p>Yes. It is our belief that the lack of governance and supervision from the National Allocation Group has meant that the Allocation Agent is required to resolve issues not contemplated by the code as a function of his role.</p> <p>Two keys outcomes users expect when complying with the code are certainty (<i>outcomes can be reasonably predicted</i>) and consistency (<i>similar issues will be treated in the same manner</i>). These elements are fundamental to ensuring that participants are treated equitably and fairly. We understand that due to a lack of guidance, these elements are sometimes missing with the current arrangements.</p>
<p>Q3 Do you agree that governance arrangements (e.g. code modification process, dispute resolution processes) are not working effectively? Please provide specific examples that demonstrate that view.</p>	<p>Yes. We contend that the lack of governance has resulted in a lack of accountability of parties to complying with the code. The was recently demonstrated in the Contact Energy Audit (results recently issued) where the auditors' conclusions criticized participants who failed to provide the auditor with access to information deemed necessary to conduct the audit. The tone of the audit report illustrates the frustration of the auditor who was unable to compel compliance and was hamstrung by delays, lack of co-operation and incomplete</p>

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	<p>information.</p> <p>We note that the code allows for the parties to request an audit if required. We comment that normally the appointment of an auditor is made by the board of a directors of a company this is to ensure that an auditor is suitability qualified, independent of the company and has no conflicts of interest. Independence (or the perception of) is critical for all users of audit reports, thus we recommend that all future auditors be appointed by the GIC or if not, majority consent of industry participants.</p>
<p>Q4 Do substantial difficulties arise as a result of the need for all shippers at a gate station to agree who to appoint as the allocation agent?</p>	<p>Yes. The idea that all parties agree unanimously to the appointment of an Allocation Agent is commendable. However, the disadvantages around uncertainty and responsibility outweigh the benefits of total agreement.</p> <p>Under the current regime it is possible that should a party disagree to the appointment of an Allocation Agent, that allocation and reconciliation could revert back to the Distributor. This could conceivably result in the industry finding itself with multiple Allocation Agents which adds cost and complexity but provides little actual benefit.</p>
<p>Q5 Do you agree that the Gas Industry Co should implement a regime where the Gas Industry Co becomes the single industry body responsible for appointing an allocation agent (or allocation agents)?</p>	<p>Yes.</p>
<p>Q6 Does the use of the "difference" allocation method and the resulting implications for the allocation of UFG variations create a substantial</p>	<p>The use of the "difference" method impacts on incumbent retailers when non-incumbent retailers data accuracy is poor. This may be a positive impact, where the incumbent is charged for less gas than</p>

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<p>problem in the industry?</p>	<p>purchased, or a negative impact.</p> <p>Global reconciliation may be unfair on retailers whose customer base is solely "major customers" all of whom have time of use metering. Given that TOU metering is more accurate than mass-market metering, the impact of UFG on TOU sites may be smaller than retailers who have a large mass market customer base. However, this could be mitigated through applying only technical loss factors to TOU sites (i.e allocation group 2).</p>
<p>Q7 If there are problems with the allocation of UFG variations, is working towards mandatory global allocation an appropriate response for the Gas Industry Co.</p>	<p>Yes, notwithstanding the issues faced by retailers whose business proposition is major customers see Q6.</p>
<p>Q8 If global allocation is not made mandatory, how important would it be for 12 month rolling loss factors to be used in the allocation process?</p>	<p>The devil is in the detail in the calculation of loss factors. We suggest a longer term approach to loss factors be considered rather than a rolling twelve month period to avoid "garbage in / garbage out."</p>
<p>Q9 Should all gas gate daily metered quantities be published daily? What difficulties (e.g. confidentiality) might arise from daily publication?</p>	<p>Confidentiality is potentially the biggest hurdle, although it is our understanding that the Allocation Agent provides total monthly reconciled metered quantities to some parties on request.</p>
<p>Q10 To what extent do industry problems arise as a result of poor quality data supplied into the allocation process.</p>	<p>Having observed the Reconciliation and Allocation process with the Allocation Agent, it is our perception that all retailers generally (especially the smaller ones) actually provide good data.</p> <p>The problem with data quality is two fold:</p> <ul style="list-style-type: none"> • Firstly, while the Reconciliation Code specifies the format that data should come into the Allocation Agent in, from observations of the processes, there is little adherence to this. As a result of the different formats, some parties are providing

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	<p>a great deal of information while other parties provide very limited detail.</p> <ul style="list-style-type: none"> Secondly, due to the spectrum of data provided it is impossible to state with certainty what the underlying source of the data is. Thus it is likely the Allocation Agent is unknowingly receiving both normalised and as billed data at present. <p>Of course, data quality is further exasperated by a lack of a central registry which would record ICP tenures and would assist identifying ICP's which are not being accounted for by a retailer.</p>
<p>Q11 Should the Gas Industry Co introduce formalised, regular wash-ups of month end allocations after 4 or 6 months and after 12 months following the month in question?</p>	<p>Yes. Powerco currently performs wash-ups at six months and at twelve month intervals following the initial bill. However, because the gas periods are not officially closed-off, it is difficult under the current regime to encapsulate (with certainty) all retailer volume changes.</p>
<p>Q12 Is it appropriate, as part of the initial changes to allocation arrangements, to require all retailers to read every non-TOU at least once in every twelve month cycle?</p>	<p>Yes. The more frequently meters are read, the better data quality. This aligns with the electricity industry.</p>
<p>Q13 Should the Gas Industry Co establish a criteria for estimates (in conjunction with an appropriate compliance regime)?</p>	<p>Yes.</p>
<p>Q14 Is it appropriate in the longer term (after the initial changes are made to the allocation arrangements) to introduce a requirement that submitted data contains a minimum percentage of historic read data?</p>	<p>Yes.</p>
<p>Q15 Is it appropriate in the longer term to introduce</p>	<p>Yes. See Q10. The purpose of the Gas Information Exchange</p>

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<p>a standardised data transfer format?</p>	<p>Protocols (which are the gas equivalent of electricity EIEP protocols) is to facilitate the transmission of data between retailers. Notwithstanding this, there is no reason they could not be used to transmit data between retailers and the allocation agent, and from the allocation agent to distributors. It is noted on page 12 that Distributors do not use the output from the Allocation Agent - this is incorrect in Powerco's case, as we scale volume up or down to arrive at the reconciled quantities from the reconciliation process.</p>
<p>Q16 Do you agree that the two main options that should be considered for making allocation and reconciliation arrangements mandatory and enforceable are a modification of the existing contractual arrangements, and Ministerial rules under the Gas Act?</p>	<p>Powerco has no comment on these points.</p>
<p>Q17 Do you agree that potential problems with pipeline owner leverage and the Commerce Act risks associated with the contractual arrangements favour the Ministerial Rules solution?</p>	