Submission to the Gas Industry Company on exemption applications DR09-06-T, DR09-07-T and DR09-08-T under the Gas (Downstream Reconciliation) Rules

From

Contact Energy Limited

24 April 2009

Introduction

Contact Energy Limited ("Contact") welcomes the opportunity to provide feedback to the Gas Industry Company ("GIC") on exemption applications DR09-06-T, DR09-07-T and DR09-08-T under the Gas (Downstream Reconciliation) Rules.

Contact's answers to the GIC's questions follow using the GIC's suggested format.

Address for service

Jan de Bruin
Senior Regulatory Affairs Analyst
Contact Energy Limited
L 1 Harbour City Tower
29 Brandon Street
PO Box 10742
Wellington

Email: jan.debruin@contact-energy.co.nz
Phone: (04) 462 1143
Fax: (04) 499 4003

Discussion Paper Questions

Question	Comment
Q1: Do submitters have any comments on the exemption DR09-06-T proposed by OnGas regarding an alternative apportionment process for ongoing fees?	Contact considers the exemption should not be granted, on the basis: • The exemption process should not be used to alter the intent of a rule. While it is legitimate to use the exemption process where the rules are unworkable, or there is an unintended consequence, that is not the case in this instance. • Nothing new has been provided by On Gas which suggests TOU should be treated differently. Conversely, allocation results to date suggest that TOU should not be treated differently. • It is noted that any change will materially shift the cost of allocation services between participants. • No persuasive argument has been provided for changing from a volume to an ICP basis, or to a hybrid basis. Accordingly, Contact considers on balance that the current basis should be retained. • Prior to allocation coming under the Gas (Downstream Reconciliation) Rules, it was subject to the Reconciliation Code and Allocation Agreements which specified that allocation costs were to be shared between retailers based on allocated quantities. This was set out in Appendix E (Model Allocation Agreement), and more particularly Schedule 4 (Allocation Service Charges). It is noted that the code and its appendices were subject to the unanimous agreement of all market participants irrespective of customer mix before the Reconciliation Code came into effect on 1 July 2000. • Any cost sharing basis is imperfect and has winners and losers, but given cost sharing based on allocated quantities was seen as fair and equitable and the most appropriate basis during the development of the Reconciliation Code and associated Allocation Agreements which required unanimous agreement, and the Gas (Downstream Reconciliation) Rules which involved industry consultation, it is time to put this matter to rest and accept the status quo. • It is also becoming more obvious to market participants, and particularly to GIC which has access to TOU/non-TOU submission and allocation splits, that non-TOU meters are not the principle cause of excessive UFG as claimed by On Gas. With more transparency it is becoming apparent that a significant number of gas gates with a large percentage of TOU metered load have abnormal UFG issues, indicating that it is inappropriate to treat TOU more favourably than non-TOU when it comes to UFG allocation. • While the principle cause of UFG is not so transparently obvious with large gas gates that have less dominant but still a large quantities of TOU metered load, it is reasonable to assume the same principle applies across these gas gates. • Contact's observations over many years leads us to firmly believe that the majority of abnormal UFG is associated with large non-

Question	Comment
	TOU and TOU metered loads due to incorrect multipliers (meter/corrector drive mismatches or programming issues, wrong number of dials being read/processed – effectively all multiplier issues), ICPs with no retailer, and large metering and corrector tolerances. This does not support the view of On Gas that UFG is primarily due to imprecise mass market data provided to the Allocation Agent.
Q2: In light of the issues raised in section 2.2 above, do submitters have any comments on exemption application DR09-07-T regarding the application of the global 1-month UFG methodology at the additional 21 gas gates identified?	Contact would like to see the application of the global 1-month UFG methodology at all gas gates, equivalent to the methodology used for electricity reconciliation. However, Contact recognises that this is an unrealistic expectation and that it is only valid to use this methodology at the point where it will address materially unfair UFG allocations and negative GGRP values. Accordingly, we support the application of this methodology at the additional 21 gas gates. The application of the global 1-month UFG methodology at 7 existing gas gates was not just based on a high percentage of TOU load at the gas gate. With differencing reconciliation and allocation of 100% of UFG to the incumbent retailer, it was obvious that for certain gas gates with a high level of TOU load which had switched to an alternate retailer that the amount of UFG being allocated to the incumbent retailer was at odds with reality, was unfair and could not be due to non-TOU load. Rather it had to be due to errors with the quantification of the TOU load and/or gas gate metering. It is noted that the issue is not necessarily due to TOU customer metering or metering/energy conversion errors as NZS 5259 provides for allowable tolerances in the meter and/or corrector accuracy, and in the application of gas factors which are required to convert actual metered volume to standard cubic metres and convert standard volume to energy quantity. It may be due to the essential principle that the gas gate meter, its corrector (where applicable), and application of conversion factors, is deemed 100% “accurate” even though it will never be 100% accurate. It is more likely that the issues reflect fundamental flaws in the reconciliation design which treats allocation of UFG to TOU differently to non-TOU, sets fixed annual (and effectively monthly) UFG factors for TOU, and limits the annual UFG factors to a maximum of 1.035 and a minimum of 0.985. Contact does have a concern regarding the requirement to submit TOU as allocation group 3 (rather than 1 or 2) and profile code as STOU (rather XTOU). Contact considers the allocation agent system should be modified to use a different methodology for identified gas gates where the global 1-month UFG methodology is to be applied, thus enabling retailers to submit as for all other gas gates. Nevertheless, Contact has committed to making changes to our gas reconciliation system to handle this.
Q3: Do submitters have any comments on	Consistent with the comments above, Contact does not see any point in discontinuing application of the global 1-month UFG methodology at any of the 7 existing gas gates where the TOU/non-TOU load split

Question	Comment
the potential revocation of the global 1-month UFG methodology at the following gas gates: EGC30701 Edgecumbe DF, ORD24701 Oroua Downs, KRG24101 Kairanga, and HGW14501 Ngaruawahia?	does not fit with the arbitrary 80%/20% threshold set by the GIC. Revocation may create issues currently avoided, accordingly Contact recommends that these be addressed during the 2010 reconciliation rules policy review.
Q4: Do submitters have any comments on the potential exemption approaches outlined in respect of application DR09-08-T proposed by Gas Industry Co regarding potential arrangements to address negative GGRP values?	Contact originally sought exemption for the existing gas gates using the global 1-month UFG methodology to maintain the status quo, as signalled during consultation on the proposed reconciliation arrangements. Negative GGRP values are only likely to occur where there is a high percentage of TOU at a gas gate. It is already obvious that for these gas gates that the fairest and most appropriate allocation methodology is the global 1-month UFG methodology. It seems logical therefore that where negative GGRP values are occurring that the best option has to be Option 2c. Accordingly, Contact recommends that Option 2c be adopted for all gas gates with a high percentage TOU load (say > 80%) and/or negative GGRP values. It is not totally clear how Option 2c will work in practice, however, Contact considers it should follow the following steps: 1. Calculate the UFG factor for the month ("Month UFG Factor") by dividing the total injected quantity for the month by the total all retailer submitted quantities for the month. 2. Apply the Month UFG Factor to the total all retailer daily quantities submitted (allocation groups 1,2,3 & 5). 3. Subtract the results of (2) from the gas gate daily quantities, and zero any negative values. This becomes the GGRP values and SADSV for the month. 4. Apply the GGRP shape to the total scaled non-daily submission quantity for the month, and add back the results of (2). 5. This results in the allocated quantities for each day and the month equalling the gas gate injection quantity for each day and the month. The only other option would be Option 1c, however, as the issue is driven by daily submission or gas gate quantity tolerance issues, this option would be illogical as it would be inconsistent with the arguments put forward for applying the global 1-month UFG methodology.
Q5: Do submitters	Contact has no objection to the proposed minor amendment.

Question	Comment
have objection to the minor amendment proposed to the Gas (Downstream Reconciliation) Rules 2008 (Exemption DR09-03-T: Residual Injection Quantity Allocation) Notice 2009 to clarify that it does not override the requirements of rule 43?	