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Bas Walker  
Gas Industry Company Limited  
PO Box 10 646  
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24 April 2009

Dear Bas

**Consultation on Exemption Applications under the Gas (Downstream Reconciliation) Rules 2008**

OnGas Limited (OnGas) welcomes the opportunity to submit on the three new exemption applications under the Gas (Downstream Reconciliation) Rules 2008.

OnGas has provided its response to the GIC's specific questions regarding the exemptions in the attached Appendix A.

Thank you for considering this submission. If you have any queries, or require further information, please feel free to contact me at [a.carrick@vector.co.nz](mailto:a.carrick@vector.co.nz) or 04 803 9044.

Kind regards

A handwritten signature in blue ink, appearing to read "Anna Carrick", enclosed in a light blue rectangular box.

**Anna Carrick**

Gas Portfolio Manager

# Appendix A Recommended Format for Submissions

To assist Gas Industry Co in the orderly and efficient consideration of stakeholders' responses, a suggested format for submissions has been prepared. This is drawn from the questions posed in the body of this Consultation Paper. Submitters are also free to include other material on the exemption applications in their responses.

Submission from: OnGas Limited, Anna Carrick

Question	Comment
<p><i>Q1: Do submitters have any comments on the exemption DR09-06-T proposed by OnGas regarding an alternative apportionment process for ongoing fees?</i></p>	<p>OnGas supports its proposed exemption DR09-06T to the allocation methodology for ongoing fees. However, OnGas does not believe the issue has been adequately addressed in the consultation paper. OnGas believes at the core of this issue is which is the most <u>fair and equitable</u> way to allocate fees under the Rules. The GIC seem to disregard this question in order to maintain the status quo.</p> <p>OnGas would like to clarify that its assertion that the ongoing fees are not reflective of true causer pays principles is simply our view. OnGas has maintained that the GIC's decision to allocate ongoing fees on a gas volume basis is not supported by substantive evidence; therefore through this exemption we have asked that the GIC undertake thorough analysis to support the assigned methodology.</p> <p>OnGas acknowledges the GIC's conclusion that it is 'too early to draw firm conclusions on such a small sample of information' in order to attribute a cost to the causer. This conclusion supports OnGas' application to adopt the suggested 50/50 cost allocation methodology until conclusive results are available on which methodology should be implemented permanently.</p> <p>OnGas has gained a strong sense through the consultation paper that the GIC do not believe this issue should be addressed through the exemption process. However, OnGas is of the view that if the current methodology is flawed providing an inequitable outcome, then it should be immediately amended through whichever avenue is most readily available. In this case, an exemption seems appropriate until the issue can be considered during the first major policy review.</p>

Question	Comment												
<p><i>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?</i></p>	<p>OnGas does not support exemption application DR09-07-T. In the first instance, OnGas does not believe all 21 gates should be considered as candidates for the exemption. OnGas believes the methodology will only provide a more equitable outcome when the gate has a very small number of group 3-6 sites which have been continually over allocated UFG (most likely due to minor metering inaccuracies of the injection or large site meter). For gas gates with a larger portion of Group 3-6 volume (of which there are many in the 21 identified), OnGas believes it will end up with the majority of the UFG (negative and positive) variability as a result of retailers group 3-6 reporting in the initial allocation. Therefore, if granted, it is highly likely that the exemption will produce unpredictable allocation results, which will have adverse upstream implications on our transmission balancing charges (which cannot be corrected at a later stage). To illustrate this point, OnGas has completed analysis on the change from the initial to interim allocation results. The following table summarises our findings:</p> <table border="1" data-bbox="862 609 2033 826"> <thead> <tr> <th></th> <th>October 2008</th> <th>November 2008</th> <th>December 2008</th> </tr> </thead> <tbody> <tr> <td><b>Initial Allocation: All gates UFG</b></td> <td>-21432.2</td> <td>-29037.5</td> <td>-8976.74</td> </tr> <tr> <td><b>Interim Allocation: All gates UFG</b></td> <td>33990.92</td> <td>18455.59</td> <td>26931.6</td> </tr> </tbody> </table> <p>OnGas believes this swing is largely attributable to allocation participants in groups 3 to 6. OnGas currently has 29 TOU customers at the 21 gas gates and will be hugely impacted if this exemption is granted. Therefore, if the exemption is granted, OnGas will wear the majority of the swing between the initial and interim allocations and there is a large risk that balancing costs will become unfair for TOU consumers at these sites.</p> <p>OnGas also considers that the exemption will not act to prevent negative residual profiles for all gates as certain gates that are not considered under this exemption may show up with negative profiles later in time. Therefore the exemption only provides a fix for a certain amount of time. Moreover, OnGas considers that the large increase in the number of TOU sites considered for this exemption will become administratively burdensome to parties. IT systems will need to be amended to enable ICPs to be treated as both a group 1 or 2 as well as a group 3 under certain conditions. OnGas is currently affected by one site under the Global 1-month method exemption and have had to put in place a workaround solution in order to deal with this site under both sets of rules. The increased number of gates assigned this exemption will greatly increase the potential for confusion and administrative burden amongst participants for both Reconciliation and Switching processes. OnGas would prefer the GIC adopt the method detailed in exemption 2.3 (option 1c) as this uses the existing allocation method with the zero floor GGRP and scaling for all gates that incur a negative residual profile. The major benefit of this solution is that it will completely remove all negative GGRPs.</p>		October 2008	November 2008	December 2008	<b>Initial Allocation: All gates UFG</b>	-21432.2	-29037.5	-8976.74	<b>Interim Allocation: All gates UFG</b>	33990.92	18455.59	26931.6
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Question	Comment
<p><i>Q3: Do submitters have any comments on the potential revocation of the global 1-month UFG methodology at the following gas gates: EGC30701 Edgcumbe DF, ORD24701 Oroua Downs, KRG24101 Kairanga, and HGW14501 Ngaruawahia?</i></p>	<p>OnGas does not have any involvement with the gates identified, however is of the view that the exemption should be revoked as the information provided shows that it is no longer necessary to continue to apply the global 1-month UFG methodology at these four gas gates.</p>
<p><i>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?</i></p>	<p>OnGas agrees with the GIC's assessment of options and is supportive of the GIC pursuing the approach identified as Option 1c: status quo allocation methodology, plus zero-floor GGRP values and the scaling of allocated quantities. OnGas considers that out of the options identified this one provides the most straightforward, workable fix. OnGas notes that the other options identified will either fail to deliver a comprehensive solution or become too burdensome to administer, adding unnecessary complexity to the Rules.</p>
<p><i>Q5: Do submitters have objection to the minor amendment proposed to the <a href="#">Gas (Downstream Reconciliation) Rules 2008 (Exemption DR09-03-T: Residual Injection Quantity Allocation) Notice 2009</a> to clarify that it does not override the requirements of rule 43?</i></p>	<p>Yes, OnGas is supportive of the proposed amendment.</p>