



**Submission to the Gas Industry Company on its consultation on  
proposed accuracy determination under the Gas (Downstream  
Reconciliation) Rules 2008**

From

**Contact Energy Limited**

10 September 2009

## Introduction

Contact Energy Limited (“Contact”) welcomes the opportunity to provide feedback to the Gas Industry Company (“GIC”).

For any questions related to this submission, please contact:

### **Peter MacIntyre**

Regulatory Affairs Manager

Contact Energy Limited

L 1 Harbour City Tower

29 Brandon Street

PO Box 10742

Wellington

Email: [peter.macintyre@contact-energy.co.nz](mailto:peter.macintyre@contact-energy.co.nz)

Phone: (04) 462 1399

Fax: (04) 499 4003

## Contact's responses to discussion questions

Question	Comment
<p><i>Q1: Do submitters support the determination of a +/- 10% or +/-15% percentage of error for consumption periods in the 2009/2010 gas year under rule 37.3? Please provide reasons for your preference and indicate your views in respect of each option.</i></p>	<p>Contact considers the current determination of +/- 15% accuracy threshold for rule 37.3 should be retained for the 2009/2010 gas year.</p> <p>It is noted that the threshold set for electricity Initial vs Final submission accuracy is +/- 15%, and subject also to inclusion of a balancing area in the accuracy calculation where the submission volume for each balancing area exceeds 100,000 kWh for the month. Contact's 2009 electricity reconciliation participant audit found that for a single consumption month selected by the auditor Contact was more than 99% compliant with the accuracy threshold.</p> <p>Contact's estimation processes for electricity and gas submissions are identical, yet analysis for the May 2009 consumption month indicates only 26% of gas gates meet the +/- 15% threshold, or 77% if gas gates with submitted volumes less than 500GJ for the month are excluded. While this analysis is for submission volumes for the Initial vs Interim allocations, it is not expected to change materially with the submission volumes for the Final allocation.</p> <p>What this indicates to Contact is that:</p> <ul style="list-style-type: none"> <li>• the gas accuracy threshold needs to include both a percentage threshold and a submission volume threshold, and a volume threshold of 500GJ is suggested given it is consistent with the materiality threshold in the guideline note for special allocations (note the electricity threshold of 100,000 kWh is equivalent to 360GJ);</li> <li>• it is more problematic to achieve the +/- 15% threshold for gas given seasonal consumption is significantly more volatile;</li> <li>• there is no point in lowering the threshold for gas to +/- 10%</li> <li>• publishing results by retailer will incentivise outlier retailers to address their estimation processes, and retaining the +/- 15% threshold while adding a volume threshold will ensure greater visibility is meaningful;</li> <li>• complex enhancements which come at additional cost are required to Contact's gas estimation processes to improve the accuracy of submissions for Initial allocations to acceptable levels.</li> </ul>

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	<p>Contact notes that all retailers with non-TOU mass market customers appear to be struggling to achieve the +/- 15% accuracy threshold, and therefore in the absence of more regular reads available through future smart metering deployments it is time for the industry to consider other options to achieve acceptable accuracy and fairness with Initial allocations.</p>
<p>Q2: Do submitters consider the information available since go-live indicates that a change to the existing +/-15% percentage of error is appropriate or not? Please provide reasons.</p>	<p>See also our response to Q1.</p> <p>Information provided to date indicates that no participant with non-TOU mass market customers is likely to be able to comply with the +/- 15% accuracy determination. This is not expected to change materially with month 13 submissions for Final allocations.</p> <p>This indicates that the industry in general is not able to accurately predict gas consumer usage behaviour when estimating consumption due to seasonal volatility.</p> <p>Nothing provided to date indicates a change to the +/- 15% threshold is appropriate, apart from a need to add a volume threshold.</p> <p>The results to date indicates to Contact that to achieve a material improvement and lower balancing risk the process to establish Initial allocations needs to change from a bottom up to a top down approach – e.g. using market share to allocate residual (non-TOU) volumes to retailers.</p>
<p>Q3: In respect of the proposed +/-10% or +/-15% options for the percentage of error, do submitters have any comments or information in relation to the following matters?</p> <ul style="list-style-type: none"> <li>•The primary aim of ensuring consumption information provided for initial allocation is as accurate as possible when compared with consumption information provided for final allocation.</li> <li>•The extent to which retailers are able to comply with the percentage of error for the accuracy of consumption information provided for initial</li> </ul>	<p>See also our response to Q1-2.</p> <p>Results from this current gas year indicate that due to the volatility in gas seasonal use retailers are not able to consistently ensure their submissions meet this accuracy requirement.</p> <p>Contact’s analysis has prompted us to consider introducing more complexity into the gas estimation processes, however while we have identified and prioritised several enhancements that will improve accuracy, we do not yet know the costs involved or whether the changes will achieve 100% compliance.</p> <p>Ultimately publishing compliance results of individual retailers following Final allocations will further incentivise retailers to improve estimation processes, however this may not be the lowest cost option to achieve materially more accurate and equitable Initial allocations.</p> <p>It is noted that submission quality alone is not going to result in materially accurate Initial allocations due to long term excess UFG and distortions created due to the UFG allocation methodology differentiating TOU and non-TOU allocations. Furthermore it appears to Contact that many of the gas gates with allocation</p>

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<p><i>allocation.</i></p> <ul style="list-style-type: none"> <li>•Any expected costs that would be reasonably incurred by retailers to achieve compliance with the percentage of error for the accuracy of consumption information provided for initial allocation.</li> <li>•Any other matters relevant to Gas Industry Co's determination.</li> </ul>	<p>issues are those with a significant percentage of TOU load, however lack of transparency in the allocation results (i.e. bundling of TOU and non-TOU allocations) means that it is impossible for a retailer to analyse whether improvements in estimation processes will materially improve the fairness of Initial allocations.</p> <p>Contact recommends serious consideration be given to a different approach to Initial allocations using market share to determine the initial allocation of non-TOU residual gas gate volumes.</p> <p>A possible strawman is as follows:</p> <ol style="list-style-type: none"> <li>1. Retailers submit only TOU for Initial allocations, and non-TOU submissions for Initial allocations cease</li> <li>2. The residual profile volumes for the Initial allocation be split between retailers based on market share, this would also include UFG not allocated to TOU using the annual UFG factors.</li> <li>3. Allocation Agent provides seasonal shapes to retailers.</li> <li>4. Retailers submit TOU and non-TOU volumes on say BD13 of the month following the consumption month, with the non-TOU read-read volumes up to the end of the calendar month to be based on use of the seasonal shapes provided by the Allocation Agent.</li> <li>5. Allocation Agent processes allocation to establish non-TOU market share.</li> <li>6. Market share from above process is used for the next Initial allocation</li> <li>7. Month 4 and 13 allocations remain unchanged</li> <li>8. If TOU data is provided daily to the allocation agent this model would enable daily allocations each day.</li> </ol> <p>It is apparent to Contact that the top down approach for non-TOU estimates gives materially more accurate estimates than the bottom up approach using dynamic seasonal shapes and variables.</p>