Appendix A Recommended format for submissions

Submission from:.....Vector

Question	Comment
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.	Of the two proposals presented, Vector supports a reduction in the error margin to +/-10%. However, we believe that the Gas Industry Company (GIC) should go further and reduce the error margin to +/- 5%. A reduction to this level would have a number of advantages, as detailed below: • A reduction of the error to +/- 5% is more consistent with the policy and regulatory outcome sought from the Gas (Downstream Reconciliation) Rules (the Rules). The outcome as specified in the Government Policy Statement on Gas Governance (GPS) is the attainment of 'Accurate and timely arrangements for the allocation and reconciliation of downstream gas'. Intrinsically, the 'accuracy' component of this outcome, which is paramount, will be better met by lowering the error to +/- 5%. We note that the GIC in its initial discussion papers on the development of downstream arrangements settled on a +/- 2% error on the basis that a margin of this size better met the policy and regulatory objectives. The current +/-15% clearly does not. • As an industry, we need to strive to achieve the Government's objectives for the gas sector. The Associate Minister of Energy has been very clear that she wants the industry to meet the Government's objectives in a meaningful and timely way. A move by the GIC to narrow the error to +/- 5% would send a clear signal that the industry is committed to delivering the Government's gas industry objectives. • A reduction in the error to +/- 5% would enhance significantly the incentives placed on retailers to improve the accuracy of their nominations. The current error provides so much leeway that there is little incentive for retailers to improve their performance. Conversely, retailers that have made investment in plant or processes

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	to improve the accuracy and timeliness of their measurement systems are not rewarded sufficiently. This is inefficient and the outcomes achieved do not accord with the regulatory efficiency objectives in the Gas Act nor those in the GPS. Furthermore, the purpose of the Rules as detailed in Rule 2, is not being met effectively. In particular, the +/- 15% error margin is not consistent with the efficiency or fairness criteria of the Purpose. • Downstream reconciliation feeds into the upstream transmission and balancing charges. This is because transmission balancing costs are based on retailers' initial downstream allocations – there is no wash-up in upstream transmission balancing. As a result, retailers, such as Vector's On Gas which manage their downstream reconciliation position well can be exposed to significant transmission balancing costs because they are apportioned industry-wide variances in the initial allocation. This is unfair and once again creates the wrong incentives. • There have been suggestions that the best way to remedy this situation is to allow a 'wash-up' upstream in transmission balancing - the timing of which would coincide with the downstream interim and final allocations. However, we see a number of problems with this approach. First, the variances that are caused downstream are best dealt with in this segment of the market, not remedied in the upstream portion of the market. Secondly, it would be extremely complex and costly to re-calculate transmission balancing charges. Thirdly, changes would have to be made to the relevant TSOs' codes which means that the outcome is not guaranteed given the level of industry consensus required. In the meantime, retailers that accurately measure their customers' consumption will continue to suffer, being charged penalties that they have little control over. The better approach is to drive improvements in the accuracy of downstream allocations where the problem lies. • The current large error margin leaves open the potential for 'gaming' by market participants to arrange their positions in a manner that minimises their upstream balancing exposures while complying with the generous downstream margins. • Gaming, particularly of an extreme nature may be picked up and thus deterred by the intermittent Audits that are provided for by the Rules. However, the ample +/- 15% error means that 'gaming', other than the most unsophisticated and blatant

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	forms, is unlikely to be identified. A retailer has so much leeway to claim that they were acting in accordance with the Rules. • As an alternative, second-best solution, we suggest that the GIC adopt a transitional decrease in the error margin - a drop to +/-10% for the next gas-year with a commitment to lower it in the 2010-11 gas-year to +/- 5%.
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.	• Vector acknowledges that based on the information provided in the consultation paper that many retailers will struggle to meet the +/- 15% error margin. Specifically, individual retailers will have a number of instances where the error margin has been exceeded. We do not expect this situation to change dramatically when final allocations are undertaken because the interim allocation by virtue of Rule 29.5 incorporates 90% of meter reads. • However, the likelihood of a degree of non-compliance with the existing error margin requirements is not in itself a sound basis for retaining the error margin at its current size. In fact, if the GIC was to decide that the margin should not be tightened because of the current performance of retailers then there is a real risk of creating perverse incentives on parties not to perform better; ie if they performed better the margin would be tightened. The relevant test, is a test against the objectives of the reconciliation process, which is to improve accuracy, not a test against current performance. • We recognise that a tightening of the error margin will likely lead to compliance costs for retailers, especially mass market retailers. However, we believe that the size of these costs has been overstated. We note that many of the retailers (Retailers 2, 3, 5, 6 and 10 to a lesser extent) have performed well and demonstrated that they can, in the main, meet the accuracy requirements. There is no evidence that their performance *vis a vis* the performance of other retailers has come at the expense of higher costs incurred. Further, we surmise based on the number of retailers that have performed well that at least one of the 'well-performing' retailers is a mass market retailer.

Question	Comment
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? *• 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.* *• The extent to which retailers are able to comply with the percentage of error for the accuracy of consumption information provided for initial allocation.* *• 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.* *• Any other matters relevant to Gas Industry Co's determination.*	• Our response to previous questions has covered off the questions raised in this section. • However, we do wish to add that while Vector was a lone voice previously in calling for tighter error limits, other submitters thought that the generous +/- 15% error was appropriate for an initial transitioning period, whereupon it would be tightened. We would submit that the time has now come to tighten these error margins and set a limit which is more likely to lead to a realisation of the 'accuracy' objectives of the reconciliation rules and the GPS. The GIC now has a full 10 months of allocation data.