

30 September 2011



Vector Limited

101 Carlton Gore Road
PO Box 99882, Newmarket
Auckland 1149, New Zealand
www.vector.co.nz

Corporate Telephone
+64-9-978 7788

Corporate Facsimile
+64-9-978 7799

Andrew Walker
Advisor
Gas Industry Company
PO Box 10-646
Wellington

Dear Andrew

Submission on Rule 37 - Consumption Accuracy Threshold

Thank you for providing Vector the opportunity to provide feedback on the Gas Industry Company's proposed consumption accuracy threshold under the Gas (Downstream Reconciliation) Rules 2008 ("the Rules") for the 2011/2012 gas year. No part of Vector's submission is confidential and we are happy for it to be publicly released.

Responses to the GIC's questions are provided in Appendix A.

Vector does not object to the GIC maintaining the current $\pm 10\%$ accuracy threshold on the basis that a tighter margin, by itself, would not provide sufficient incentives for market participants to make further investments to improve the accuracy of their consumption estimates.

Vector believes any further adjustment to the threshold should be considered in conjunction with an alternative algorithm that would identify the biggest causers of Unaccounted-For-Gas ("UFG") and make them bear the costs of UFG proportionately. This approach could be considered during the review of the Rules, which we look forward to.

If you have any questions, or require further information, please contact Luz Rose on 04 803 9051 or Luz.Rose@vector.co.nz.

Kind regards

Bruce Girdwood
Manager Regulatory Affairs

Appendix A: Consultation on Rule 37 - Consumption Accuracy Threshold

Submission prepared by: Vector Limited

Contact: Luz Rose, 04 803 9051, Luz.Rose@vector.co.nz

QUESTION	COMMENT
Q1 Do you support maintaining the current accuracy threshold of $\pm 10\%$? Please provide reasons for your preference	<p>Vector does not object to the GIC maintaining the current accuracy threshold of $\pm 10\%$ for the 2011-2012 gas year.</p> <p>In previous submissions, Vector advocated for progressive reductions of the accuracy threshold by at least 2.5% annually (which the GIC has so far implemented) until it reaches the $\pm 5\%$ level.</p> <p>Our overall experience since the Gas (Downstream Reconciliation) Rules ("the Rules") were implemented in 2008 has led us to believe a further reduction of the current threshold, by itself, would not provide sufficient incentives for industry participants to make investments to improve the accuracy of their consumption estimates. Complying with a tighter threshold for the coming gas year could imply additional costs for retailers (eg establishing new processes to improve reporting accuracy or installing new meters) without tangible marginal benefits for industry participants.</p> <p>The vast majority (approximately 90%) of reported breaches under current arrangements are determined to be immaterial. Reduction of the accuracy threshold to less than $\pm 10\%$ could mean significant costs for retailers for reporting additional immaterial breaches without offsetting reductions in compliance costs from greater accuracy.</p> <p>Our view has also been informed by two other reasons:</p> <p>a) the GIC's assessment of industry participants' compliance with Rule 37:</p> <ul style="list-style-type: none"><i>...there does not appear to be a strong upward...long-term trend in the total number of</i>

QUESTION	COMMENT
	<p><i>breaches...despite the accuracy threshold being tightened on two occasions. It is possible to conclude from this that the overall level of estimation accuracy must be slowly improving in order for the breach activity to remain constant against a narrowing target threshold.</i></p> <ul style="list-style-type: none"> <i>the benefit of capturing the small number of extra material breaches has to be offset against having to deal with a large number of extra non-material breaches.</i> <i>...it is the large gigajoule breaches, rather than the large percentage breaches, that have the highest impact on market participants.</i> <i>As the threshold is tightened still further there is a diminishing number of extra material breaches captured, which get steadily larger in gigajoule terms [emphasis added].</i> <p>b) the impending review of the Rules</p> <p>Vector believes that for any further adjustments to the accuracy threshold to have significant positive impact, the adjustments should be considered in conjunction with more effective measures such as an alternative algorithm of allocating costs related to Unaccounted-For-Gas ("UFG"). Vector would support an algorithm that would identify the biggest causers of UFG and make them bear the costs of UFG proportionately. This approach is consistent with the "causer/user/beneficiary pays" principle Vector has consistently advocated. This would also reduce opportunities for gaming. An alternative algorithm could be considered during the review of the Rules.</p>
<p>Q2 Do you have any further comments or information relevant to Gas Industry Co's determination?</p>	<p>In addition to an alternative algorithm, the GIC should reassess the effectiveness of the 200GJ volume threshold during the review, and consider the appropriateness of adding a rule specifying the use of a volume threshold, subject to regular stakeholder consultations.</p> <p>Vector understands that the GIC has informally commenced the review of the Rules, and looks forward to being able to consider an exposure draft as soon as practicable. At present, there are</p>

QUESTION	COMMENT
	<p>varying interpretations of various Rules, and we expect the review to clarify and express those Rules more effectively. This would assist in reducing compliance costs and making the downstream market more efficient, which would be a good outcome not only for retailers and other industry participants but ultimately for consumers.</p>