



**Submission on the Gas Industry
Company's Consultation on rule 37
Percentage of Error Determination under
the Gas (Downstream Reconciliation) Rules
2008**

From

Contact Energy Limited

23 September 2010

Summary

Contact welcomes the opportunity to provide feedback on this consultation paper. Specific responses to the questions raised in the consultation paper follow.

In summary, Contact does not support reducing the error percentage from 12.5% to 10% but strongly supports the introduction of a 200 GJ materiality threshold.

For any questions related to this submission, please contact:

Matt Chivers
Energy Reconciliation Manager
Contact Energy Limited
L 1 Harbour City Tower
29 Brandon Street
PO Box 10742
Wellington

Email: matt.chivers@contactenergy.co.nz

Phone: (04) 462 1234

Fax: (04) 499 4003

Question	Comment
<p><i>Q1: Do submitters support the determination of a ±10% percentage of error for consumption periods in the 2010/2011 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 does not support reducing the percentage threshold to +/- 10% at this point in time.</p> <p>Contact supports introduction of a 200GJ threshold, but contrary to Gas Industry Co considers this can be implemented as a determination under rule 37.</p> <p>Reducing the percentage error to 10% is unlikely to have a significant impact on initial submission accuracy. The existing threshold already incentivises retailers to improve their initial submission accuracy, and Contact has taken steps, and is investigating further cost-effective action that will improve the accuracy of initial submission accuracy. Even so, the current 12.5% level is a challenging target that no retailer with any significant mass market load appears able to come close to attaining. Therefore making this target even harder is unlikely to achieve useful results without significant investment in system changes and/or increasing operating costs which ultimately flow to customers.</p> <p>It is also noted that last year two thirds of the retailers who made submissions opposed a reduction from +/-15% to +/- 12.5%, so it was surprising that Gas Industry Co determined a lower threshold was appropriate without taking into account the practical nature and cost impact of the change.</p> <p>Contact's view is that the action that will have greatest benefit for the 2010/11 year is the introduction of the 200 GJ materiality threshold. This will focus retailers' attention on a relatively small number of non-compliances which will allow them to drill down to root causes and implement solutions that will lead to future improvements in initial submission accuracy. This will have a much greater impact on improving accuracy than changing the percentage of error so we propose that the error is held at 12.5% for the following year.</p> <p>Contact considers rule 37 does not prevent additional mechanisms to address exceptions (such as a GJ threshold). It is noted that the Electricity Governance Rules Part J Schedule J3 Rule 2.2.3 has more or less identical wording to rule 37, yet the Electricity Commission determined in September 2008 that this should be reflected as "submission accuracy threshold of +/- 15% and > 0.1 GWh per balancing area". Contact considers Gas Industry Co has taken a view that is too literal (or legally pure) rather than reflecting the purpose of the rule and practical considerations.</p> <p>Accordingly Contact proposes that an appropriate determination under rule 37 for the year beginning 1 October 2010 would be:</p> <p>"Submission accuracy threshold of +/- 12.5% and > 200GJ change between consumption information provided for initial and final allocations."</p>
<p><i>Q2: Do submitters consider the information available since go-live indicates that a change to the existing percentage of error is appropriate or not? Please provide reasons.</i></p>	<p>The data indicates that many retailers are struggling to comply with the 15% and 12.5% requirements, but that most of this non-compliance is at gates where the volumes are not material. Therefore the most appropriate action would be to introduce a 200 GJ materiality threshold for the reasons described in response to Q1 and allow a further 12 months for the improvements as a result of this to be measured before reducing the percentage.</p>

Question	Comment
<p><i>Q3: In respect of the proposal for the percentage of error, do submitters have any comments or information in relation to the following matters?</i></p> <ul style="list-style-type: none"> • <i>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.</i> • <i>The extent to which retailers are able to comply with the percentage of error for the accuracy of consumption information provided for initial allocation.</i> • <i>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.</i> • <i>Any other matters relevant to Gas Industry Co's determination.</i> 	<ol style="list-style-type: none"> 1. Contact agrees that it is important that initial submissions are as accurate as they can reasonably be, bearing in mind the costs associated with attaining increasing accuracy and the inherent difficulties of estimating gas consumption. 2. Clearly it is difficult for mass market retailers to comply with the existing 15% and 12.5% error limits. Contact has made system improvements over the last year that have improved the level of submission accuracy. Even so, around 80% of the initial submission for mass market customers is based on estimates (assuming a bi-monthly read cycle). Combining this with the fact that gas usage is heavily temperature dependent, it should be recognised that there is a limit to the level of initial submission accuracy that can reasonably be attained without significant extra costs imposed on customers. Contact continues to look for ways to improve accuracy, but any changes to the current bottom-up approach are likely to result in relatively small gains. 3. To further improve Contact's level of compliance will require system changes. These are difficult to quantify at this stage as the scope of the changes is not yet known, and changes to current systems would unlikely be approved given the priority on implementing the new enterprise wide systems solution for Contact (SAP) over the next 18 months or so. Nevertheless based on current system development costs before go live of the gas reconciliation rules, the costs necessary to achieve a step improvement in initial submission accuracy would likely be material. There is no guarantee that system changes to introduce more dynamic estimation algorithms would result in full compliance with rule 37.2 – in fact that is unlikely to be the case, especially if the error percentage is reduced to 10%. Further improvements could be achieved by reading all gas meters monthly but this would be a significant cost which Contact does not wish to impose on its customers. 4. Contact would like to see work continue on other methods of improving accuracy, in particular the provision of the seasonal adjustment daily shape values for use in a two stage initial allocation process, and top-down methods.
<p><i>Q4: Do submitters support an exemption for all percentage of error breaches that are less than 200GJ outside compliance with rule 37.2? Please provide reasons</i></p>	<p>Contact strongly supports this change, but as outlined above we do not consider it requires exemptions. Retailers with predominantly mass market customers are currently overwhelmed with rule 37.2 breaches which make it difficult to identify and remedy the key causes. This is partly because most of these are for immaterial volumes but raising these as breaches is clouding the issue. With these filtered out it will be much clearer what it is important to focus on. This should lead to an improved understanding of the causes of non-compliance and result in changes that will have future benefits for initial submission accuracy.</p>