



GREYMOUTH GAS

3 February 2012

Ian Dempster
General Manager Operations
Gas Industry Company Limited
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Dear Ian,

RE: Downstream Reconciliation – Options

Greymouth Gas New Zealand Limited ("Greymouth Gas") is pleased to make a submission on the Downstream Reconciliation – Options Paper (the "paper") following an invitation from the Gas Industry Company ("GIC") on 16 December 2011.

The paper is essentially a review of the Gas (Downstream Reconciliation) Rules 2008 (the "rules"). Greymouth Gas supports such a review and our submission on the paper follows the questions posed in the paper:

Options for Improving Accuracy of the Initial Allocation

- 1) *Do participants agree that the option of making SADSV available in advance of AG4 and AG6 initial consumption submissions is worth pursuing?*

Yes.

- 2) *GIC seeks feedback on the feasibility of staggering the submission of TOU and non-TOU data for the initial allocation and delaying publication of the results of the initial allocation. We also seek an indication of whether retailers would be able to accommodate the 24-hour period for processing and submitting non-TOU data once they received the SADSV.*

Greymouth Gas primarily makes TOU data submissions and accordingly, we are not materially impacted by the mass market UFG issues.

We recognise that this is an industry issue and the option of making SADSV available in advance does seem like a pragmatic solution to explore. However, we would not want to see material delays in transmission invoicing (unless Vector relaxed their payment terms) or finalised balancing positions.

The pragmatic solution is therefore Alternative B per page 28 of the paper.

Greymouth Gas would consider amending our systems to effectively provide TOU injection data on/by Business Day 3 instead of part-way through Business Day 4, if it looks like this will be of material benefit to industry.

- 3) *Do you agree that preferentially allocating UFG to causers is worth investigating as a possible alternative to the global allocation method for the initial allocation? If not, please provide reasons.*

Yes – but only to the extent of the process put forth on page 30 of the paper, i.e. AG1 and AG2 would be allocated as they are now.

- 4) *What is your view of using the difference between a retailer's initial and interim submissions as the measure of accuracy?*

No comment.

- 5) *If a rolling average were to be used as the basis for measuring accuracy, how many months would you suggest the average be taken over?*

No comment.

- 6) *One suggestion is to define 'causers' as the bottom x% of retailers when ranked by submission accuracy. What value would you suggest for 'x'?*

As the GIC notes, the value of 'x' will depend on the business model of retailers. Perhaps a cost-benefit analysis is needed to identify the point at which 'x' generates a marginal benefit to industry compared with the cost of implementation?

Such an analysis would need to take account of allocative efficiency issues and the purpose would be to determine if 'x' could be reasonably tightened further, or whether doing so would be too costly.

- 7) *Do you agree that it is worth investigating the feasibility and cost of implementing daily allocations (D+1) at a pipeline level? Please provide reasons for your answer.*

D+1 has been an issue for a number of years and while the theoretical benefits are relatively clear-cut, prior M-co and GIC analysis has proven that the feasibility and cost of implementing D+1 is prohibitive.

Accordingly, the question shouldn't be whether there is an investigation; it should be whether the current ad-hoc investigations continue and whether old arguments are rehashed. Such a process would require significant cost-benefit and efficiency analysis and is almost better placed sitting outside of the paper, particularly when the SADSV process may allow interim incremental improvement.

Greymouth Gas reserves further comment on D+1.

8) *If D+1 were to be implemented for BPP charges, would it be a concern for your organisation if transmission charges continued to be based on the existing initial allocation methodology?*

No comment.

9) *Do you agree it is worth investigating changing the initial allocation algorithm? Does your organisation have any suggested algorithm/s?*

Yes – it may be worth investigating changing the initial allocation algorithm as a further interim step made in accordance with, or after, the SADSV solution.

Greymouth Gas would support such an investigation where the status quo allocation continues for TOU data, and we make no comment about the relative merit of using market share to determine mass market allocations.

Atypical Gas Gates

10) *Do you agree that the purpose of the Reconciliation Rules would not be better served by having retailers who trade at direct connect gas gates subject to the global allocation methodology? If not, please provide your reasoning.*

No. The status quo is fine whereby direct connect gas gates are not subject to the global allocation methodology. Continuation of this approach is supported by:

- The original policy intention to provide transparent public data, which Oatis continues to provide for direct connect gas gates where the pre-splits are equal to the splits.
- The rules are all about allocation, and no allocations are required at direct connect gas gates.
- Allocations are primarily required for Vector's purposes, and Vector doesn't need an external party to tell them what they already know.
- Section 43ZN(b)(iv) requires delivered gas costs to be subject to sustained downward pressure; so bringing direct connect gas gates under the rules would unnecessarily increase the costs for end users connected directly to the transmission system.
- Further to the point above, NZX might have a commercial benefit if they "allocate" direct connect gas gates, as there could be scope for their revenue to increase.

11) *If you agree with Question 10, do you also agree that the Reconciliation Rules should be amended as described above so as to obviate the need for exemptions in respect of direct connect gas gates?*

Notwithstanding the first part of this question, the rules should be amended to obviate the need for exemptions in respect of direct connect gas gates. I.e. the rules should incorporate the concepts provided in current exemptions on direct connect gas gates. This way the rules can incorporate continuous improvement and leave the exemption process free to look at exceptional circumstances.

12) *Do you agree that the global methodology fails to produce acceptable results at gates that have a very high proportion of TOU load?*

No. Without seeing numbers or an analysis as part of the paper, the evidential answer must be no.

13) *Do you agree with the proposal to incorporate within the Reconciliation Rules provision for a framework for application of the global 1-month methodology at gas gates that meet specific criteria? If not, please provide your reasons and your suggested alternative approach to addressing the shortcomings of the global methodology in such circumstances.*

Greymouth Gas would want to see such a proposed framework drafted first before forming a view on whether the same should be incorporated into the rules.

Prima facie, there is a problem but the proposed solution gets straight to the point without addressing possible intermediary issues like other sources of UFG, accuracy of meter reads, or audits of gas gates.

Wouldn't it be pragmatic to do event audits at these particular gas gates to determine what the real issue is? And if the outcome is that various parties' different but correct super-compressibility calculations exclusively cause UFG at smaller gas gates, then shouldn't this just be a function of the current gas conversion policy settings?

Going straight to a global monthly methodology may not only circumvent other government policy processes, but it may also disincentivise the GIC to assess each gas gate's specific circumstances on a case-by-case basis via the exemptions process.

14) *Do you consider that all gas gates should have gas measurement systems installed? If not, please provide reasons. If you consider that there should be a threshold below which gas gate meters are not necessary, please describe both the threshold and the basis of measurement, e.g. monthly average or monthly peak or annual volumes.*

Yes. This view is based on the theory that exemptions should either be incorporated into the rules or addressed so that they are no longer exemptions over time.

However, the argument is tricky because while the chart on page 43 of the paper hints that installing gas measurement systems would break-even by 2021, Vector may decommission gas gates which are uneconomic. This could create a perverse Gas Act 1992 outcome notwithstanding that the counterfactual may create a perverse outcome under the rules.

15) *Do you agree that, for the purposes of the review of the Reconciliation Rules, gas gates with oversized meters should be treated in the same way as gas gates that do not have meters installed? If not, please provide reasons.*

Yes.

Correcting AUFG Factors

16) *Do you think the GIC should consider making an explicit rule to enable correction of AUFG factors or should the exemption process be relied upon?*

No. The exemption process can be relied upon for exceptions.

Greymouth Gas notes the successful implementation of the AUFG and MUFG concepts driven by the tangible higher level of accuracy from AG1 and AG2 data compared to other Allocation Group data due to the frequency of meter reads.

However, there are two suggestions which could be explored when it comes to UFG:

- First, during a review of the rules, wouldn't it be prudent to review the concept of full allocation of UFG to retailers?

Has there been a study that can identify all components of UFG and pin all UFG upon retailers? Is the GIC 100% certain that Network Owners and Transmission System Owners have no venting, pending maintenance or line pack differential issues that could contribute to UFG?

Perhaps an annual review of determinants of UFG is needed with the outcome being to distribute a proportion of the AUFG and MUFG factors to the Network Owners and Transmission System Owners who at the moment get a free-ride at the expense of consumers.

To persist with such an assumption especially during a review of the rules could be contrary to section 43ZN(b)(iv) and even (vi) of the Gas Act 1992.

- Second, if a retailer submits 100% accurate data to the Allocation Agent then why should they be given a proportion of the AUFG factor?

Wouldn't there be scope to make an AUFG factor retailer specific based on prior year accuracy of the final allocations? This would be a great way of incentivising parties to improve their initial, interim and final allocation results.

Allocation of Ongoing Fees

17) *Do you agree that the way in which ongoing costs are apportioned among retailers should be changed to a 50:50 mix of volume and ICP numbers? If not, please provide your preferred apportionment method with supporting reasons.*

The real issue here is the setting of precedents for other work-streams, and obtaining the fair and reasonable buy-in of various parties to continue to work collaboratively together on future industry initiatives.

The GIC should be careful not to make conflicting signals, but, rather, user-pays should prevail with costs reflecting fairly on those who use the service: a simple matching principle. In this case we are allocating volume of gas, so costs should be proportionate to the volume of gas.

Greymouth Gas does not support apportioning costs 50:50 because the status quo is okay.

Compliance Related Issues

18) *Do you agree that the AG1 and AG2 data should only be treated preferentially when actual TOU data are being supplied? Of the options identified, some could be implemented as a package. Which option/s do you prefer for addressing missing TOU data? Do you believe that there are other options worth considering?*

No. AG1 and AG2 data should continue to receive preferential treatment regardless of whether it is actual data or estimated because:

- a) TOU retailers should not be punished for what are generally meter owners' equipment deficiencies,
- b) Estimates are typically accurate and are performed in accordance with the rules, i.e. estimates in audits have generally been found to comply with the rules so the fact that there are estimates would not make a material difference to the AUFG concept,

It is important to note that AG1 data is of the highest quality, notwithstanding that the equipment is often the same as other Allocation Group equipment, simply because telemetry enables daily or possibly hourly meter reads. Data quality must therefore account for both equipment and frequency.

Of the options identified, Greymouth Gas prefers option 1, i.e. elimination of triple jeopardy which is simple and makes sense. The current triple jeopardy regime is extremely inefficient – retailers receive a number of breaches (due to simple things like estimations) and have to deal with the onerous breach process three times, it is a complete repetition of information and should only be triggered at the first interim allocation stage. On the other options we make the following comments:

- Option 2 is already provided for in the estimation guidelines in the rules and the associated audit process. To prescriptively determine estimates would remove the ability of retailers to factor in different seasonal and business-cycle considerations that AG1 and AG2 customers typically have. I.e. 30 day historical data may not be representative of the period requiring estimates. Surely it is better to retain the current guideline and audit process.
- Option 3 is not pragmatic for reasons discussed earlier. Application of various UFG factors is not the issue and changing the status quo is arguably not material.
- Option 4 is already in place under the rules and the current estimation process, guidelines and audits, works fine.

Option 1 is by far the best option.

19) *Do you agree that meter owners should have more obligations under the rules? Do you agree that some of the obligations placed on retailers would be more appropriately placed on meter owners?*

Yes. It is not enough to simply say that retailers have contracts with meter owners; therefore retailers bear the responsibility for getting a good meter reading service. Sure, competition does exist between meter owners but changing a meter owner requires changing the meter.

In our experience, we have had metering problems with all our meter owners so we think this is a problem with the metering industry rather than with any particular retailers failing to ensure adequate service delivery. Case in point: the numerous alleged breaches of rules 31.1, 32.1 and 33.1 of the rules. Some of the metering problems we have from time to time at customers' sites are:

- Gas leak or other requiring bypass that sometimes isn't captured by the meter,
- Corrector failure,
- Back-up corrector failure,
- Battery failure,
- Delays attending to remote sites

There is an argument that this is the nature of the gas metering industry simply by nature of trying to measure a gaseous product, i.e. metering issues do happen from time to time.

However, the counter to this is that if the gas industry and/or the GIC wants to make real improvements here (and possibly industry could use such improvements as a stepping stone to future smart meter investment and/or rollout), then the rules must have adequate incentives and obligations on meter owners.

Such meter owner obligations could include at a minimum:

- Audit of meter owner performance,
- Dual requirement of meter owner alleged breach when retailers are allegedly breached for rules 31.1, 32.1 and 33.1 of the rules,

20) If you have been or are regularly notified of a breach of rule 39 by the allocation agent, is there a problem you can identify with the rules or with the Gas Registry that could be changed without compromising the intent of the downstream reconciliation process that would reduce the incidence of those types of breaches?

Notwithstanding the lead-in to the question, there are some problems with the wording of rule 39, as follows:

- Rule 39.1.2 implies that whenever any customers are lost at a gas gate, e.g. one customer out of ten; then rule 39.1 applies. The intent seems to be that when all customers are lost, then this triggers rule 39.1 vis-a-vis cessation of supplying gas to a gas gate.
- Rule 39.1.3 doesn't seem to acknowledge that Vector's head transmission services agreement covers posted price transmission to all gas gates, meaning retailers have the contractual right to supply gas to all gas gates notwithstanding that gas may/may not flow. So when gas does flow for the first time, while this is commencing flow at a gas gate, it is not commencing a transmission services agreement in respect of that gas gate.

- The definition of transmission services agreement in the rules and transmission services agreement in the VTC are different. There is also an argument that the intent of the rules' definition of transmission services agreement only refers to the head transmission services agreement and not to supplementary agreements. Notwithstanding this, the mismatch in definitions can cause misunderstandings between various parties to the rules.
- When supplementary agreements are commenced or ceased, there is large scope for error because the concept is not individually envisaged by the rules. E.g. if notifying the Allocation Agent that a transmission services agreement (i.e. a supplementary agreement) has ceased for a particular gas gate, then can the Allocation Agent's systems recognise that the head transmission services agreement itself is not ceasing, but a supplementary agreement is ceasing notwithstanding that the retailer may continue to flow gas to that same customer?

Each month there is a tight turn-around for allocations and industry billing. A simple misunderstanding because of rule 39 could have significant consequences, especially for balancing.

Process for Granting Exemptions

21) Do you agree that exemptions should only be permissible where there is a reasonable substitute available that achieves the intent and purpose of the rules or in an 'exceptional circumstance'? What sort of situations do you believe would warrant an 'exceptional circumstance'?

Yes. Exceptional circumstances are often unforeseen and as such, the rules should retain flexibility. An example of this would be if a direct-connect customer starts obtaining some wholesale or spot market gas which may throw up a number of issues with the rules.

22) If GIC removes the exemption provisions, are the specific circumstances or situations that you believe warrant consideration for specific rule amendments now so as to remove the requirement for a future exemption?

Removing exemption provisions is dangerous because the future cannot be predicted. It would be better to be open to having future reviews of the rules or assessing unusual things on a case by case basis.

GIC Conclusion

23) Given the rules are unlikely to be reviewed again, are the other issues you would like GIC to consider before a Statement of Proposal is released for consultation? Please be specific with your suggestions/s and where possible provide supporting evidence.

Yes – per suggestions throughout our submission.

24) Do you agree with the proposed timeframe for implementing any rule changes?

No. There are three problems:

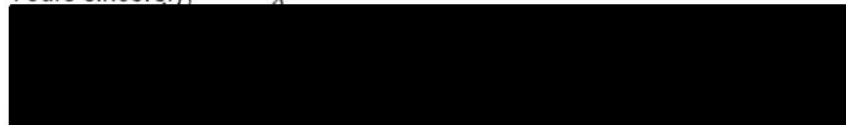
- After the Statement of Proposal ("SOP") and call for submissions, there is no supplementary paper or analysis of submissions by the GIC which could include, amongst other things, cost-benefit analysis and efficiency tests. This is an important step that the GIC usually takes but is missing. Without such a step, the GIC would have limited recourse to amend the SOP in light of submissions or subsequent workshops.
- Industry submissions on the review of the draft rule changes are also missing. This is important to iron out drafting issues and ensure the intent of the SOP is captured by the words in the rules.
- Go-live is October 2013, but it might be better to specifically say that 1 October 2013 would be the go-live date to coincide with the gas year. At the moment the date is ambiguous.

25) *Do you consider that creating an advisory group similar to the GART is worthwhile for the purposes of developing rule changes as a result of this policy review?*

No. The paper is not reviewing the formation of the rules or creating new core policy, but is seeking to tweak existing policy and propose pragmatic improvements. Accordingly, a new GART or similar wide-ranging panel is unnecessary in our opinion.

However, should a contentious issue emerge during or after the Statement of Proposal stage, then it would make sense to workshop the proposed solutions with industry before changes are incorporated into the draft rules.

Yours sincerely,



Chris Boxall
Commercial Manager