4th October 2007

Jay Jefferies
Gas Industry Company
Level 9
1 Willis Street
Wellington

By email: submissions@gasindustry.co.nz

Re **- GIC Statement of Proposal: Allocation & Reconciliation of Downstream Gas Quantities**

Thank you for the opportunity to convey E-Gas's position on the GIC's proposals for Downstream Allocation and Reconciliation.

E-Gas' formal response to the Statement of Proposal is attached. We have endeavoured to keep this submission as succinct as possible and would be pleased to address or develop our proposals. In summary, the GIC's Allocation proposals require substantial development to each legislative compliancy.

The co-regulatory body is commended on progressing the new allocation proposals to the current position in a short time frame.

Yours sincerely

SYD HUNT
General Manager
E-Gas Limited

E-Gas' market position & contribution to current UFG levels

E-Gas is a relatively small retailer that specializes in servicing commercial and industrial gas consumers throughout the North Island. E-Gas is not a dual fuel energy provider, selling only natural gas, trading on all distribution networks.

The size and focus of E-Gas' business enables our customers to receive monthly billings based on actual meter readings that take place at or near month end. E-Gas consistently achieves a monthly meter read rate of over 90 percent of its customer base. Accordingly quantity data submitted to Allocation as a rule contains a very small estimation component. We understand that UFG will be redefined under the GIC's proposal to be the difference between into Distribution network quantities, metered by Vector Transmission, less the sum of all retailers reported sales quantities for the same period.

The GIC's proposals particularly those concerning Unaccounted for Gas ("UFG") allocation are therefore material to E-Gas' ongoing business operations.

While generally absorbing higher input costs and not benefiting from the economies of scale afforded from dual fuel trading with its accompanying larger mass market customer base, the efficiencies of our comparatively small business operation has enabled E-Gas to nevertheless compete successfully with both large and vertically integrated energy retailers. E-Gas' contribution to the gas market has been important, contributing significantly to the maintenance of strong competition in the market segments in which our company has been able to operate profitably.

For the reasons explained above, E-Gas' contribution to UFG is negligible. The proposal to redistribute aggregated UFG to all retailers, due to its present large quantum, would have a material adverse financial impact on our business, affecting our ability to compete. As the consequence, the GIC's proposals are likely to have the effect of lessening market competition and at the same time are unlikely to generate any consumer benefit.

In contrast to the Commerce Commission's requirements in respect to distribution network price reductions, the GIC's proposals in our opinion do not embrace a pass-back to consumers by those retailers that would be financially advantaged by the Allocation rule changes. The issues are additionally exacerbated by the intention to cap UFG allocated to the largest gas consumers which in turn unnecessarily further accentuates the impact on E-Gas' business.

Proposals to reduce unacceptable UFG levels

E-Gas supports the GIC in its activities that can be demonstrated to improve the gas industry's business and performance standards. For the reasons explained it is essential with regard to its Allocation proposals that the GIC first implements the measures required to reduce the quantum of UFG to be redistributed before redistribution actually occurs.

The approach needs to focus on implementing measures of a character which will place sufficient downwards pressure on UFG variances, to coerce reductions to the objectionable high levels, to levels that are generally recognised to be within acceptable tolerances; essentially consistent with the distribution network allowances that are earmarked to be replaced by the GIC's proposed redistribution arrangement. This is a reasonable prerequisite to the introduction of the new UFG Allocation methodology, bearing in mind that the distribution allowances reflect previous attained UFG operating levels.

Need for Transitional UFG arrangements

We envisage the need for transitional arrangements – with the proposed provisions of the new Allocation arrangements deployed initially to reduce UFG to acceptable levels[1], to be followed by the activation of the new UFG redistribution methodology. Activation would be based on predetermined thresholds set by the industry. This approach avoids:

- The unnecessary harsh financial impacts embodied with the current proposal, as well as
- the need to address completion and retail price reduction considerations

while at the same time permitting the GIC to make substantial enhancements to Allocation arrangements that could be anticipated to have a wide industry base of support.

Further GIC investigations on UFG & Rule development

E-Gas asks the GIC to undertake an investigation of UFG performance enhancement measures that can be deployed, including actions to further support the reliability and accuracy of UFG reporting, as a basis for further industry consultation. These investigations combined with further industry consultation will enable specific measures to be determined and incorporated in the new arrangements. To this end, we advance proposals later in this

[1] During this period existing UFG practices would continue.

submission for inclusion in the new Allocation arrangements to assist with addressing the unacceptable current level of UFG.

The Allocation proposals as presented do not fulfil the essential regulatory objectives identified by the GIC[2]. In particular they require development to reasonably ensure the objectives of fairness, reliability, transparency and competition facilitation are attained.

E-Gas suggests the pan-industry electricity reconciliation rules, which have undergone development with specialist inputs, generally represent a good quality benchmark to judge the completeness and adequacy of the provisions intended to be applied in the gas market.

Specific measures that E-Gas proposes are in part based on standardisation with those rules; E-Gas is of the view that consistency within the energy industry on reconciliation arrangements is desirable if not essential for an internationally recognised stable market environment. Variances based on industry size[3], technical and physical differences should govern the acceptability of departures from the electricity reconciliation rules.

Pan industry agreement or Rules promulgation

The work undertaken by the GIC is recognised as good progress. However further work of a specialised character is essential to meet the legislative requirements for rules[4] adoption, suggested by the GIC, as the appropriate industry framework.

E-Gas supports in principle the adoption of new allocation arrangements but in the form of a Pan-industry agreement. The level of progress has been achieved to date by stakeholders justifies maintaining this approach. Only if on completion, incorporating input from received submissions and following further development and industry consultation as proposed herein, insufficient stakeholders are willing to join the arrangements in the form of an industry protocol that ensures broad-based compliance, should the new allocation arrangements be moved to be promulgated legislatively.

---

[2] Paragraph 2.18 of the Statement of Proposal (pp 10 & 11).

[3] Industry size: unacceptable level of administrative/compliance cost (i.e. costs outweigh benefits), given the relative smallest of the gas market (with <250,000 ICP's) could be the basis for justifiable departures.

[4] Gas Act S 43.

Cost/benefit considerations – Pan Industry agreement or rules promulgation

There appears to be little accurately measurable difference in the net cost/benefit position between a pan Industry agreement and rules, given further development of the Allocation arrangements, under both alternatives, is necessary. No measurable delay or cost would be incurred in providing the industry with the opportunity to adopt the Allocation arrangements, once completed, as a pan industry agreement.

Allocation services cost apportionment

Allocation operational costs are ICP based, not volume dependent. The number of digits associated in reporting a customer's quantity has an infinitesimal influence on processing requirements. Allocation agent costs should be apportioned essentially on an ICP count basis. Any other appointment basis is manifestly inequitable.

Essential additional Allocation arrangement provisions

E-Gas proposes the inclusion of provisions addressing the following specific matters:

1. **Obligations on all data submitters to supply compete and accurate data** – extending to include data submission dates, compliance with industry information (data) exchange protocols, correction & reporting of errors, etc.

2. **Transparency & disclosure -** Allocation agent to maintain a web site with both public and Industry (i.e. password controlled) sections. Summarised, non stakeholder specific information disclosed on public pages only; Industry pages to report & maintain up-to-date performance measures (see below), breach reports, audit reports, etc.

3. **Performance reporting** - Statistics of ICP/days (comparing retailer submitted data with equivalent registry reports), Reconciliation of quantity data accuracy (measuring & reporting variances between the three data submission files – month/network/retailer), meter read performance (comparison with 90% within 4 month & 100% within 12 month meter reading requirements), comprehensive UFG statistics reporting covering all three same month data submissions within Allocation period; also the development of comparable performance measurements in respect of Allocation agent's operations –

reported on proposed Allocation agent web site (stakeholder section with retailer specific disclosure).

4. **Rule exemptions –** Provision of a specified process that is transparent & equity based, including opportunity for stakeholder submissions and formal proceedings on which exemption determinations are derived.

5. **Threshold for TOU devices –** Installation of correction devices compulsory for all over 10 TJ/year sites, allowance for discretionary TOU installations for less than 10 TJ/year sites; if installed include in over 10 TJ/yr. Allocation groups.

6. **Standardisation of estimated sites: Deemed profiles** - for all estimated sites the provision of standardised estimation profiles with application requirements specified for part months; Allocation agent to calculate profiles applying agreed and published methodology – consideration of this to be applied by all retailers. (Profiles to be published on Allocation Agent's proposed web site – Both distribution networks specific & seasonally adjusted).

7. **Inclusion of additional data provider obligations** - Transmission system owner to provide daily/monthly corrected gate station data to Allocation agent, together with calorific value - published on Allocation Agent's web site (stakeholder section). Registry to provide ICP/days data, etc.

8. **Transition provisions** – Comprehensive transitional provisions addressing UFG as proposed herein.

9. **Reporting of breaches –** compulsory for Allocation Agent to report all detected breaches (include assessment of materiality e.g. minor (i.e. data correction required), medium or material (the latter two categories to include impact assessments).

10. **Audits –** The sizable financial value of the Allocation Agent's operations dictates mandatory annual independent audits, with the resulting audit report published (on proposed web site, public section). The audit report should verify the correctness of the allocation functions & compliance with the Allocation rules, etc.

Egas response to GIC Statement of Proposal
Allocation & Reconciliation of Downstream Gas Quantities

Questions	Comments
Q1: Do submitters have any general comments on the proposal or the process adopted by Gas Industry Co?	E-Gas agrees the GIC Allocation proposal & process has conformed to legislative requirements but the development (and therefore consultation) process is at this juncture incomplete; refer to our submission for details.
Q2: Do submitters have any comments on the analysis and findings in the Energy Acumen report?	The GIC should retain an objective (include in its 2007 GPS) to align upstream and downstream reconciliation activities into one overarching arrangement. The GIC should resume work on this once the review of transmission arrangements has been completed; that review should facilitate alignment.
Q3: Do submitters agree that, provided compliance with the conversion processes in NZS 5259:2004 is mandated, it is inappropriate to introduce a standardised billing methodology at this time?	The 2004 standard cannot be mandated as it is not the version used for regulatory compliance purposes (Gas Regulations 1993); the GIC's proposal essentially duplicates existing regulatory compliance requirements and therefore should not proceed. Application of the 1997 standard to Allocation data should be investigated and discussed with stakeholders.
Q4: Do submitters have any comments on Gas Industry Co's proposed method of global allocation which would cap the UFG allocated to allocation groups 1 and 2?	E-Gas does not agree with the GIC's proposals for the reasons explained in our submission; an alternative, equitable, proposal is set out in our submission.
Q5: Do submitters have any comments on the proposed transitional arrangements?	Transitional arrangements for UFG management will be necessary; refer to our submission for details of E-Gas' proposals.

Egas response to GIC Statement of Proposal
Allocation & Reconciliation of Downstream Gas Quantities

Q6:	Are the proposed exemption provisions appropriate? Do submitters envisage that, if the proposal is implemented, they would seek an exemption? If so, please provide details.	The current draft provisions require further development prior to implementation; refer to E-Gas' submission. Transparency of both process and decision taking is essential.
Q7:	Do submitters have any comments on the cost-benefit analysis, including any comment on NZIER's report attached as Appendix 5?	There is no material difference in the assessed cost/benefit outcomes associated with a Pan industry and legislative based rules; the difference resulting from timing differences have been incorrectly assessed. Full opportunity should be afforded to stakeholders to adopt voluntary arrangements; refer to submission.
Q8:	Do submitters agree with the funding options for the proposal? If not, please state your reasons.	Agreed.
Q9:	Do submitters agree with the allocation of costs for the proposal? If not, please state your reasons.	Allocation of costs needs to be based on retailer ICP counts; this is supported by the majority of stakeholders and conforms to Government cost apportionment guidelines; refer to submission. The GIC proposal unreasonably places the cost burden on large consumption sites.
Q10:	Do submitters have any comments on the proposed rules attached at Appendix 6? If appropriate, please provide a marked-up copy of the rules (a Word version is available on Gas Industry Co's website for this purpose).	Yes, significant further development of current proposals is essential; E-Gas' detailed comments are set out in its submission.
Q11:	Do submitters have any comments on the proposed compliance arrangements? If appropriate, please provide a marked-up copy of the regulations (a Word version is available on Gas Industry Co's website for this purpose).	No additional comments.