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23 April 2009

Mr B Walker
Gas Industry Company
PO Box 10-646
Wellington

Dear Bas

<u>CONSULTATION ON EXEMPTION APPLICATIONS UNDER THE GAS (DOWNSTREAM RECONCILIATION) RULES 2008</u>

Thank you for the opportunity to comment on exemption applications DR09-06-T, DR09-07-T and DR09-08-T. I am responding on behalf of Energy Direct NZ (EDNZ).

Application DR09-06-T: alternative ongoing fees allocation
We support OnGas' application for alternative apportionment of ongoing fees. However, we believe that this would be better addressed through a rule change.

Application DR09-07-T: application of global 1-month UFG methodology to certain gas gates
We support the application to apply the 1-month global UFG methodology to specified gas gates where TOU consumption makes up 80-100% of the total consumption. We agree that the 1-month global UFG methodology should not be applied for gas gates where there are no group one or two consumers, or all group one and/or two consumers.

Application DR-09-T: negative values for the gas gate residual profile
We would prefer for negative UFG values to be addressed by using a floor of zero and scaling the results to match the total injected for each day. This should be applied to all allocations, regardless of whether they calculated using the 1-month global UFG methodology, or the methodology specified by the rules.

If you would like to discuss our comments further please contact me by email at tara.gannon@energydirectnz.co.nz or by phone on DDI 06 349 2055. Alternatively you can contact our General Manager, Michael Ram, by email at michael.ram@energydirect.co.nz or by phone on 06 349 0129.

Yours sincerely

Tara Gannon
<u>Energy Trading Manager</u>

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Submission from: **Energy Direct NZ** Contact: Tara Gannon

Application DR09-06-T alternative ongoing fees allocation:

Question	Comment
Q1: *Do submitters have any comments on exemption application DR09-06-T proposed by OnGas regarding an alternative apportionment process for ongoing fees, either generally or in the context of the issues set out?*	We believe it is more appropriate for changes to ongoing fees to be addressed through a rule change, than an exemption. EDNZ would prefer the costs to be allocated using the alternative formula of 50% on the basis of allocation quantities and 50% on the basis of number of ICPs, for different reasons to OnGas. While we understand OnGas' point of view, it can also be argued that TOU consumers can make a significant contribution to UFG. A small error on a TOU meter can be equivalent to the consumption of many mass market consumers. In addition, TOU consumers are treated differently to mass market consumers under the Gas (Downstream Reconciliation) Rules 2008 and are not subject to the same degree of fluctuation in UFG as non TOU consumers. Now that we have several months of allocation results it has become clear that some gas gates have negative or zero UFG and other gas gates are much higher. Changing the methodology will ensure that all consumers will have a fair share of the ongoing costs of producing the allocation results. Currently consumers on gas gates with negative UFG bear a small portion of the costs relative to their size, and consumers on other gas gates make up the balance. The proposed change to the allocation methodology would not have a significant impact on EDNZ. We currently have a similar share of the total consumers and total gas consumption.

Application DR09-07-T application of global 1-month UFG methodology to certain gas gates:

Question	Comment
Q2: *In light of the issued raised in section 2.2, do submitters have any comments on the exemption application DR09-07-T regarding the potential application of the global 1-month UFG methodology at the additional 21 gas gates identified?*	EDNZ believes it is appropriate to use the global 1-month UFG methodology for the identified gas gates. For gas gates where TOU consumers make up a significant proportion of consumption and annual UFG is more or less than the monthly UFG factor, the allocation results for non TOU consumers are distorted.

	EDNZ has mass market consumers on five of the affected gas gates: Eltham, Hawera, Longburn, Manaia and Marton. We have seen evidence of extreme allocations with UFG of more than +/-2% every month. There have also been spikes in allocations for our mass market consumers on certain days, particularly for Hawera, Eltham, Longburn and Marton which are likely to be caused or significantly contributed to by allocations to TOU consumers. We would prefer the allocation system to recognise gas gates being allocated using the global 1-month UFG methodology, rather than requiring retailers to submit group 1 and 2 data as group 3. If more gas gates change to the global 1-month UFG methodology as proposed it is likely that the benefits of reducing breaches and retailer costs will outweigh the one off cost of the M-co system changes. EDNZ is not directly affected by the current group 1 and 2 submission requirements under the global 1-month UFG methodology as we do not have TOU consumers at any of the affected gas gates.
Q3: Do submitters have any comments on the potential revocation of the global 1 month UFG methodology at the following gas gates: EGC30701 Edgecumbe DF, ORD24701 Oroua Downs, KRG24101 Kairanga and NGW Ngaruawahia?	EDNZ currently has mass market consumers on the Oroua Downs and Kairanga gas gates. We do not trade on the Edgecumbe or Ngaruawahia gas gates. **Gas gates with no group one or two consumers** We agree that the global 1-month UFG methodology should be revoked for the Oroua Downs, Kairanga and Ngaruawahia gas gates. The change of methodology will not have any impact on the allocations to mass market consumers on these gas gates. The global 1-month UFG methodology changes the way in which TOU consumption is calculated, leaving a different amount of residual consumption to be shared among mass market consumers. Where there are no TOU consumers, the mass market allocation results will be the same using either methodology. EDNZ began trading on the Oroua Downs and Kairanga gas gates in February 2009, and has found the allocated GJ to be unpredictable. We believe that the cause of these issues is likely to be a large group 4 consumer (or consumers), who either have full or partial forward estimates for the affected periods, initial seasonal profiles that are inconsistent with actual daily shape values, or a metering error. We do not believe that changing to the methodology specified on the rules will make these unpredictable results worse. **Gas gates with only group one and/or two consumers** For gas gates with only group one and/or two consumers, such as Edgecumbe, exemption DR-08-13T will ensure that the quantity of gas injected matches the quantity allocated. We do not believe it is necessary to use the global 1-month UFG methodology for this gas gate.

Application DR09-08-T negative values for gas gate residual profile:

Question	Comment
Q4: Do submitters have any comments on the potential exemption approaches outlines in respect of application DR09-08-T proposed by Gas Industry Co regarding potential arrangements to address negative GGRP values?	Negative GGRPs make it very difficult for retailers to comply with the accuracy requirements of rule 37, and need to be addressed. Of the suggested options in table 2, we agree that applying a floor of zero and scaling the daily quantities so that they do not exceed the daily total injected (option 1c) is the best approach. These criteria should be applied to all allocations, regardless of whether they are calculated using the global 1-month UFG methodology or the methodology specified in the rules. UFG is frequently in excess of 2% and it is important that retailers are not allocated more consumption than has been injected. We believe that this is consistent with the purpose of the rules and assists the fair, efficient and reliable allocation of downstream gas quantities. Options 1a, 1b, 2a and 2b will not achieve the desired result, as there will continue to be negative GGRP values, or allocated quantities will exceed injected quantities. Option 2c raises questions about whether the current regulated methodology is appropriate, as it would mean that there would be exemptions in place for almost half of all gas gates. If this option is the preferred one by the majority of participants, the industry should seriously consider changing the rules so that all gas gates are treated consistently. We agree that the algorithm for calculation of injection quantities at unmetered gas gates should be changed to prevent negative GGRP values being calculated due to the TOU quantity on a given day being greater than the daily injection quantity.

Minor proposed amendments to exemption DR09-03-T:

Question	Comment
Q4: Do submitters have objection to the minor amendment proposed to the <u>Gas (Downstream Reconciliation) Rules 2008 (Exemption DR09-03-T: Residual Injection Quantity Allocation) Notice 2009</u> to clarify that it does not override the requirements of rule 43?	EDNZ has no objections to the amendment.