GasNet
An independent trading division of Wanganui Gas Limited

S005

23 February 2007

Kelly Rastovich
Gas Industry Company Limited
PO Box 10 646
Wellington

Dear Kelly

SUBMISSION ON RECONCILIATION OF DOWNSTREAM GAS QUANTITIES DISCUSSION PAPER

I thank you for the opportunity to make a submission on the Gas Industry Company's Discussion Paper and attach *Gas*Net's response in the format requested.

Although *Gas*Net has interests in a number of matters raised in the Discussion Paper not all are of concern or interest to GasNet and considered better left to other parties who do. *Gas*net has entered no comment for a number of questions on the basis that it is not well enough informed to make a comment, has no concern and therefore no specific view, or has insufficient time to consider the full implications to make comment.

*Gas*Net has not provided a response to questions CBA Q1-10.

Should you wish to discuss this further please do not hesitate to contact me either by phone at (06) 349 0131 or by email at geoff.evans@gasnet.co.nz.

Yours sincerely

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Submission on Reconciliation of Downstream Gas Quantities Discussion Paper

Submission prepared by: Geoff Evans, Manager for GasNet 23 February 2007

Question	**Comment**
Q1: Do you agree with the definitions adopted by Gas Industry Co in this Discussion Paper? If not, what do you suggest?	Definitions of "Allocation" & Reconciliation *Agree* Definition of "Downstream" *Low pressure is a defined pressure regime within distribution systems so making reference to "low pressure distribution pipelines" at the interface with gas gate stations is incorrect as few gates, if any, supply low pressure.* *Suggest changing "low pressure distribution pipelines" to "distribution pipelines".* Definition of "Upstream" *GasNet agrees with the definition, but disagrees with the exclusion of upstream reconciliation (refer question 2 below).*
Q2: Do you agree with the proposed Regulatory Objective for downstream reconciliation? If not, what do you think would be a more appropriate regulatory objective?	*GasNet disagrees with the Regulatory Objective and GIC's decision to exclude upstream reconciliation arrangements.* *GasNet is concerned at the risk of the downstream arrangements changing later in the event that they do not meet the upstream requirements. Upstream is dependant upon downstream and neither can be considered in isolation.* *Typo – the use of the word "safe" in the first bullet point Clause 3.13 does not appear appropriate.*
Q3: Do you agree with Gas Industry Co's preferred	*Yes although it is essential that the approach does not result in the quirks*

approach towards standardised file formats? If not, how should it be improved?	*and anomalies that exist in the file formats that have been proposed for the gas industry to date. The end result needs to be an efficient and effective solution that meets the needs of the gas industry, not a hang over of issues that the electricity industry faced in reaching agreement that all parties could agree to. For example, the file formats that have been proposed still require consumption to be reported in 3 different units MJ, GJ & kWh. There should be only one figure required with the appropriate calculation applied to achieve the required output.*
Q4: Do you agree with the proposed estimation accuracy criteria and proposal to require normalisation of data? If not, why not?	*Yes but subject to the following;* *1. The same normalisation methodology must be applied by all parties to ensure consistency. Any enhancements to the methodology should be applied by all parties and not seen as a commercial advantage for one retailer to have a better process than another.* *2. The effectiveness of the normalisation methodology must be gauged by monitoring and reporting normalised quantities against as billed quantities for each party, such as rolling 12 months as billed vs normalised.*
Q5: Do you agree with the proposed minimum meter reading requirements? If not, why not?	*No. The maximum interval between meter readings must be optimised for each group based on a cost benefit approach, which may or may not be as proposed in the paper.* *GasNet is concerned that it is recommended to require retailers to comply with NZS 5259. This is a requirement of GasNet's Use of System Agreements with retailers but of greater concern is that if they don't comply what is the alternative? Gasnet considers it highly likely that all retailers comply with NZS5259.*
Q6: Do you consider the 10TJ threshold for allocation groups 1 and 2 should be reviewed? If so, do you have any information that would assist Gas Industry Co to perform this review?	*Yes, but analysed on a cost benefit approach.*
Q7: Do you agree with the proposed process for the calculation and publication of loss factors appropriate? If	*No for the reasons as follows;* *1. The reportedly high levels of losses across networks are not an*

not, how should it be improved?	*indicator of the operational efficiency of the network or the GMS on those networks.* *Prior to deregulation of the industry and the introduction of multiple retailers, it was relatively easy to gauge the "efficiency" of the network in establishing gas losses (traditionally known as UFG). When natural gas was first introduced to displace manufactured gas the level of UFG was high and as networks were upgraded the level of UFG was seen to dramatically reduce to typically within +-2% and for the first time some networks achieved such high levels of leakage control the UFG went positive. The reported levels of losses now being stated are inevitably due to data issues around billing and estimating, not through any change in operation at the network or GMS level to cause increase leakage or metering inaccuracies. GasNet is concerned at the implications that the discrepancies are due to the network or GMS operators activities when in fact they have little if any influence.* 2. *Although it is agreed that distributors are an obvious candidate to calculate loss factors (as well as the Allocation Agent) the distributors are completely dependent upon data provided by others and the accuracy of the processes around that data. As all data is available and likely to be known to all parties, the calculation should be transparent and available to all. The Allocation Agent is in the best place to perform this calculation and at the same time report on the performance of each party in their data processes (for example by comparison of as billed data to normalised data).* 3. *It is apparent that within the industry there is confusion between loss factors and UFG, and where the traditional network/GMS operational losses sit within each. There needs to be clear definition of all terms and definitions used for losses, irrespective of the definitions with exiting legislation such as Information Disclosure.*

	4. *In addition to throughput volumes being used as an indicator of the operational efficiency of GasNet's networks, they are also the basis of charging for a component of network services. If GasNet is not satisfied that the determination of loss factors across its networks is robust, it is conceivable that GasNet may change its pricing methodology such that it either eliminates or reduces the risk associated with the variable cost component. It is essential that distributors are satisfied with the methodology for determination of loss factors across their networks.* 5. *GasNet considers that the process for updating loss factors should be the same for all distributors whether it is mandated or not.*
Q8: Do you consider that the current month end timeframes for the provision and calculation of allocation information are appropriate?	*No, without considering the upstream requirements Gasnet does not consider that there is sufficient information to make an assessment.* *Clearly there is an opportunity to extend the timeframe to improve data quality, but any change must consider the extent to which the quality will improve and the consequence of extending the time allowance.* *GasNet is not aware of any issues with the existing timeframe and although acknowledges that it is tight, has not had issues with receiving or providing data within the required timeframe.*
Q9: Do you consider transitional provisions and/or exemptions will be required prior to the central registry go-live date?	*GasNet considers it inevitable that transitional provisions will be required.*
Q10: Do you agree with the preferred approach of implementing a mandatory requirement on all industry participants to submit accurate data and comply with all data submission requirements?	Yes
Q11: Is Gas Industry Co's proposed regime for rolling 4 month (interim allocation) and 13 month (final allocation)	*No, whilst GasNet considers the proposal for the downstream allocation reasonable, it does not consider the upstream requirements.*

revisions appropriate? Is the terminology ("interim allocation" and "final allocation") appropriate or would alternative terminology (e.g. "first revision" and "second revision") be clearer?	
Q12: Do you agree with Gas Industry Co's proposed restriction of the correction process (i.e. limiting corrections to within one working day of publication and only if a manifest error is discovered)? If not, what alternative correction process do you propose?	*If one day is the maximum time possible then Yes, but if there is some room to allow for errors to be corrected after the expiry of one day then No, in which case the time allowed should be the maximum the process will allow.*
Q13: Do you agree with the preferred approach of publishing gas gate, UFG and specified allocation information?	*Yes, GasNet agrees that there should be complete transparency and that performance measures around data reliability and accuracy should also be published.*
Q14: Do you agree with the preferred approach of mandating the 1 month UFG global method?	*Yes, providing that the change will result in an improvement in the data accuracy and allocations which are closer aligned to what has actually been used by consumers (as billed quantities).*
Q15: Do you agree that the mandatory downstream reconciliation arrangements should not include the day end estimated allocation service and month end monthly allocation service?	*No comment.*
Q16: Do you agree that Gas Industry Co should appoint the Allocation Agent using a service provider model similar to that used in the electricity industry? Do you agree that the initial appointment should be for a 5 year term?	*GasNet has no view on which model should be used but agrees with the term and supports longer terms to allow the Allocation Agent to commit to developing robust efficient processes and to maximise the accountability of the Allocation Agent. The Allocation Agent needs certainty to commit the necessary expertise and resources.*
Q17: Is a pan-industry arrangement as described in this section the most appropriate alternative governance structure to the use of regulations and rules under the Gas Act? Which governance structures would you prefer (regulatory or pan-industry)?	*Based on the issues which have arisen over recent times, the complex nature of allocation and the commercial risks the various parties face, GasNet considers that the regulatory is the only option.*
Q18: Should funding of the reconciliation arrangements be covered by a process detailed in the reconciliation arrangements (rather than, for example, by the levy)? Do you agree with Gas Industry Co's preliminary view that	*Yes, funding should be covered by the reconciliation arrangements. With the increasing cost of compliance it is essential that component costs are identified and funded by a mechanism closer aligned to the activity the cost recovery relates to.*

the arrangements should be funded by retailers according to the number of ICPs?	*Assuming that time and effort is comparable for ICP's with each allocation group irrespective of their gas loads, it would seem logical to charge on the basis of the number of ICP's within each group for each retailer, with different charges applicable for each group.*
Q19: Do you agree with the proposed audit arrangements? If not, please specify which aspects of the proposed arrangements are inappropriate and how you consider they should be improved?	*Yes although questions the implications both downstream and upstream in the event that a party is found to have been at fault up to 3 years prior. GasNet's Use of System Agreement presently extends no further back than 18 months for corrections and it is unlikely that the upstream arrangements will allow corrections 3 years prior!*
Q20: Do you agree that the auditor should be excluded from coverage of the compliance regime (i.e. should compliance be only a contractual matter between Gas Industry Co and the auditor)?	*Yes*
Q21: Are the proposed arrangements for Allocation Agent compliance appropriate? What do you think is a suitable liability cap for non performance?	*No comment.*
Q22: Do you agree that reporting of breaches should be voluntary for participants (not mandatory)?	*Yes*
Q23: Do you agree that the Allocation Agent should have a mandatory obligation to report breaches and suspected breaches?	*Yes*
Q24: Do you agree that all other persons (e.g. consumers, Gas Industry Co and auditors) should have the right to report a breach?	*Yes*
Q25: Do you agree with the proposed time limit for reporting breaches?	*Yes*
Q26: The preferred approach for the design of the compliance regime for reconciliation is similar to the compliance regime proposed for switching. Do you agree that the proposed compliance regime is appropriate? If not, how should the compliance regime be changed?	*No comment.*
Q27: Do you agree that there is a need to provide for	*Yes*

special allocations? Do you agree with the proposed process for special allocations?	
Q28: Do you have any comments on the detail in Appendix D? Are there any additional matters that should be included in this framework?	*No comment.*
Q29: Do you agree that obtaining unanimous agreement will likely require seeking authorisation from the Commerce Commission of any pan-industry agreement on downstream reconciliation?	*No comment.*
Q30: Do you have any views on the feasibility of a pan-industry agreement? Would participants be willing to agree to a pan-industry agreement covering the measures proposed in section 11 of this paper (subject to any necessary approvals, including any necessary Commerce Commission or Ministerial approval)?	*No comment.*

Submitter responses to the questions that are included in the NZIER cost/benefit framework paper:

Question	Comment
CBA Q1: Is the first five years from the earliest date of the proposals taking effect a long enough time period to capture the resulting changes, particularly the benefits? If not, what period do you propose?	*No comment.*
CBA Q2: Is this baseline scenario a realistic representation of what would happen in the absence of the proposals? If not, in what ways do you think it could be made more realistic and why?	*No comment.*
CBA Q3: Do you agree with assessing the costs and benefits of all of the proposals' options, under each of a regulatory regime and a pan-industry agreement, to simplify and reduce the costs of undertaking the CBA? If not, what alternative approach do you suggest and why?	*No comment.*

CBA Q4: Are there any costs identified in Table 1 that you consider it inappropriate to include in the CBA? Are there any significant costs missing from Table 1? Do you have any suggestions as to the likely magnitudes of the costs or how they might, in practice, be estimated?	*No comment.*
CBA Q5: Is there any relevant information on electricity market reconciliation that could be used to inform the cost estimates?	*No comment.*
CBA Q6: Are there any benefits identified in Table 2 that you consider it inappropriate to include in the CBA? Are there any significant benefits missing from Table 2? Do you have any suggestions as to the likely magnitudes of the benefits or how they might, in practice, be estimated?	*No comment.*
CBA Q7: Do you agree that negotiation and agreement would cost less under the regulatory regime and be less likely to involve inefficient compromises? If not, why not?	*No comment.*
CBA Q8: Do you agree that wealth transfers should be disregarded in assessing the net public benefit of the proposals? If not, why not, and what alternative approach do you favour and why?	*No comment.*
CBA Q9: Do you agree with the use of real discount rates of six percent and twelve percent? If not, why not, and what alternative values do you favour and why?	*No comment.*
CBA Q10: Do you agree with the use of sensitivity analysis to test the robustness of the CBA's conclusions? If not, why not, and what alternative approach do you favour and why?	*No comment.*