



23 February 2007

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Dear Nicole

Reconciliation of Downstream Gas Quantities – Discussion Paper

Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide comments to the Gas Industry Company on its discussion paper entitled 'Reconciliation of Downstream Gas Quantities' dated 11 January 2007. Genesis Energy has reviewed the discussion paper and is pleased to have the opportunity to respond to the issues raised in it.

Genesis Energy welcomes the Gas Industry Company's positive approach in changing the Gas market to more accurately reconcile downstream Gas quantities. Genesis Energy is generally supportive of the changes outlined in the discussion paper and has provided more detailed comment of some specific points in response to the specific consultation questions attached in Appendix One.

If you would like to discuss any of these matters further please contact either myself on 021 375 061, or Tracey Kaio on 021 778 375.

Yours sincerely

A handwritten signature in black ink, appearing to read "J Carnegie".

John A Carnegie
Regulatory Affairs Manager
Genesis Energy

Appendix One: Responses to Specific Consultation Questions

QUESTION	COMMENT
<p>Q1: Do you agree with the definitions adopted by Gas Industry Co in this Discussion Paper? If not, what do you suggest?</p>	<p>Yes.</p>
<p>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?</p>	<p>Yes.</p>
<p>Q3: Do you agree with Gas Industry Co's preferred approach towards standardised file formats? If not, how should it be improved?</p>	<p>Yes.</p>
<p>Q4: Do you agree with the proposed estimation accuracy criteria and proposal to require normalisation of data? If not, why not?</p>	<p>Yes.</p>
<p>Q5: Do you agree with the proposed minimum meter reading requirements? If not, why not?</p>	<p>Yes.</p>
<p>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?</p>	<p>No. Any requirement to lower the 10TJ threshold would increase metering and data management costs without providing any more benefit than will be gained by the implementation of the other improvements outlined in this paper.</p>
<p>Q7: Do you agree with the proposed process for the calculation and publication of loss factors appropriate? If not, how should it be improved?</p>	<p>Yes.</p>

QUESTION	COMMENT
<p>Q8: Do you consider that the current month end timeframes for the provision and calculation of allocation information are appropriate?</p>	<p>Yes. Genesis Energy does acknowledge the requirement to have these timeframes to meet the industry's commercial obligations, but they do place significant time and workflows pressures on retailers.</p>
<p>Q9: Do you consider transitional provisions and/or exemptions will be required prior to the central registry go-live date?</p>	<p>Yes.</p>
<p>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?</p>	<p>Yes.</p>
<p>Q11: Is Gas Industry Co's proposed regime for rolling 4 month (interim allocation) and 13 month (final allocation) revisions appropriate? Is the terminology ("interim allocation" and "final allocation") appropriate or would alternative terminology (e.g. "first revision" and "second revision") be clearer?</p>	<p>Genesis Energy believes the more appropriate terminology would be the term "revision" and this should be defined as information provided from the retailer, whereas the term "Allocation" should be defined as information provided from the Allocation agent.</p> <p>Genesis Energy would support a move to a revision cycle which would provide revisions on months 3, 7 and 14. This is consistent with what is seen in the Electricity market, and would lower operational costs for retailer operating in both markets.</p> <p>Genesis Energy would prefer to see a 3 month submission be called the "first revision", the 7 month submission to be called the "second revision" and the 14 month submission to be called the "final revision".</p>
<p>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?</p>	<p>Genesis Energy believes the one working day period is very tight, and would only be appropriate with the adoption of the suggested revision schedule outlined in our response to Q11 above.</p>
<p>Q13: Do you agree with the preferred approach of publishing gas gate, UFG and specified allocation information?</p>	<p>Yes.</p>

QUESTION	COMMENT
<p>Q14: Do you agree with the preferred approach of mandating the 1 month UFG global method?</p>	<p>Yes, Genesis Energy strongly supports the move to the 1 month UFG global method, as this is the most significant improvement of all the proposed changes.</p>
<p>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?</p>	<p>Yes.</p>
<p>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?</p>	<p>Yes.</p>
<p>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)?</p>	<p>Yes, the pan-industry is the most appropriate, but adherence to the arrangement must be made mandatory.</p> <p>The requirement for mandatory adherence may need to be achieved through regulation.</p>
<p>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</p>	<p>Genesis Energy supports the levy being calculated based solely on number of ICP's as previously submitted.</p> <p>However the funding of Allocation costs must based on the volumes allocated and should be treated as a separate cost.</p>
<p>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?</p>	<p>Yes.</p>

QUESTION	COMMENT
<p>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)?</p>	<p>Yes.</p>
<p>Q21: Are the proposed arrangements for Allocation Agent compliance appropriate? What do you think is a suitable liability cap for non performance?</p>	<p>Genesis Energy does not support the use of a yearly limitation of liability cap. It seems unfair that an affected party would not receive compensation based solely on the timing of the claim.</p> <p>Although, in general, Genesis Energy would agree that the \$2million limit set for electricity is high, Genesis Energy would not go as far as to reduce the limit for the gas industry to 1% of that in electricity on a per event basis.</p> <p>Genesis Energy would suggest that a limit of \$50,000 per affected party per event with no yearly limit would be a more appropriate starting point.</p>
<p>Q22: Do you agree that reporting of breaches should be voluntary for participants (not mandatory)?</p>	<p>Genesis Energy supports mandatory reporting with the proviso that mandatory reporting would be restricted to material breaches.¹</p>
<p>Q23: Do you agree that the Allocation Agent should have a mandatory obligation to report breaches and suspected breaches?</p>	<p>Yes, but the Gas Industry Company must have the right to determine materiality of the breach and therefore whether or not the alleged breach should be pursued.</p>
<p>Q24: Do you agree that all other persons (e.g. consumers, Gas Industry Co and auditors) should have the right to report a breach?</p>	<p>Yes, but the Gas Industry Company must have the right to determine materiality of the breach and therefore whether or not the alleged breach should be pursued.</p>
<p>Q25: Do you agree with the proposed time limit for reporting breaches?</p>	<p>Yes.</p>

¹ Genesis Energy would prefer to see the term alleged breach used in the questions 22 -25 rather than breach. This is as any alleged breach would remain alleged until confirmed that a breach did in fact occur or not at the conclusion of an investigation.

QUESTION	COMMENT
<p>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?</p>	<p>Yes.</p>
<p>Q27: Do you agree that there is a need to provide for special allocations? Do you agree with the proposed process for special allocations?</p>	<p>Yes, it is essential to provide for special allocations.</p>
<p>Q28: Do you have any comments on the detail in Appendix D? Are there any additional matters that should be included in this framework?</p>	<p>No.</p>
<p>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?</p>	<p>Yes.</p>
<p>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)?</p>	<p>Genesis Energy is supportive of the pan-industry agreement and would like to see it adopted by all participants. However Genesis Energy cannot comment on what will be the reaction of all other parties.</p>

CBA QUESTION	COMMENT
<p>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?</p>	<p>Yes.</p>
<p>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?</p>	<p>Yes</p>
<p>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?</p>	<p>Yes.</p>
<p>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?</p>	<p>Costs listed in Table 1 are all appropriate, with no costs missing.</p> <p>A method that reviews current actual costs of industry participants, and reviews the costs against a similar regime – ie Electricity Reconciliation – should be undertaken to obtain likely magnitudes of cost.</p>
<p>Q5: Is there any relevant information on electricity market reconciliation that could be used to inform the cost estimates?</p>	<p>Yes, see answer to Q4 above.</p>

CBA QUESTION	COMMENT
<p>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?</p>	<p>The major benefit would be a substantial improvement in operational efficiency for all retailers which would have the effect of providing downward pressure on customer pricing.</p> <p>Genesis Energy disagrees that spreading existing governance and compliance regimes to all future work flows, including Reconciliation, is necessarily a benefit. Genesis Energy has always been of the view that any governance and compliance regimes should be fit for purpose rather than apply simply due to ease of implementation.</p> <p>Again, as mentioned in our response to CBA Q4, a method that reviews current actual costs of industry participants, and reviews the costs against a similar regime – ie Electricity Reconciliation – should be undertaken to obtain likely magnitudes of cost.</p>
<p>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?</p>	<p>Yes.</p>
<p>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?</p>	<p>Yes.</p>
<p>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?</p>	<p>Genesis Energy agrees that the use of 6% is a fair representation of real WACC for the larger participants within the gas industry. However, the use of 12% can not be commented on without further clarification.</p>
<p>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?</p>	<p>Yes.</p>