

4 September 2008

Bas Walker  
Gas Industry Company  
Level 9, State Insurance Tower  
1 Willis Street  
WELLINGTON

Dear Bas,

### Initial exemptions under the Gas (Downstream Reconciliation) Rules 2008

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Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide a submission to the Gas Industry Company on the consultation paper "Initial exemptions under the Gas (Downstream Reconciliation) Rules 2008" dated 21 August 2008. Genesis Energy has reviewed the consultation paper and is pleased to have the opportunity to respond to the issues raised by this first batch of exemption applications. Responses to the specific consultation questions are attached as an appendix.

Genesis Energy appreciates the tremendous effort that Gas Industry Company staff, their consultants, and the service provider are putting in to trying to meet the extremely ambitious implementation timeframe set for this large and complex project. This is also a very busy time for industry participants. The fruits of this intense labour should include the development of a considerable body of experience within the regulator and the industry together with greatly improved transparency of downstream reconciliation information. Genesis Energy looks forward to the sector capitalising on this information and experience in the medium-term by developing a series of enhancements to the rules.

If you would like to discuss any of these matters further, please contact Ross Parry on 04 495 3348.

Yours sincerely

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

John A Carnegie  
Regulatory Affairs Manager

## Appendix A: Responses to Specific Consultation Questions

QUESTION	COMMENT
Q1: Do submitters have any comments on the transitional exemption DR08-17-T proposed by Gas Industry Co regarding allocation processes for gas gates without allocation 4 or 6 consumption?	Genesis Energy supports the approval of this exemption.
Q2: Do submitters have any comments on the transitional exemption DR08-18-T proposed by Gas Industry Co regarding injection quantities for unmetered gas gates?	<p>Genesis Energy supports approval of this exemption.</p> <p>Genesis Energy agrees with the proposed methodology of using the estimation process already developed within the allocation agent system to provide the daily injection quantities.</p> <p>Genesis Energy agrees with the suggested terms and conditions.</p> <p>Genesis Energy considers that it would not be efficient to provide metering at these gas gates given the small volumes of gas consumed. Regulatory intervention to compel installation of meters would raise delivered gas prices for consumers at those gates without achieving commensurate benefits.</p> <p>Genesis Energy considers that it would be consistent with the Gas Industry Company's policy drivers to allow installation of metering at small volume gates such as these to be a commercially-driven decision.</p>
Q3: Do submitters have any comments on the global 1 month methodology exemption	Genesis Energy supports approval of this exemption using the Gas Industry Company's suggested methodology of

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<p>applications DR08-02-S from Genesis Energy and DR08-04-S from Contact Energy?</p>	<p>retailers submitting their allocation group 1 and 2 consumption data as group 3 data.</p> <p>As documented in Genesis Energy's exemption application, these gates are dominated by one or a few very large customers who may have seasonal loads (for example, a large dairy factory) that negatively impact on the other small volume customers. This drives a pragmatic need to have all customer volumes at those gates reconciled using the monthly UFG rather than the annual UFG for group 1 and 2 and monthly UFG for the remaining groups.</p> <p>This is recognised in historical reconciliation arrangements that in turn reflect investigations that showed large distortions to allocated volumes would occur if group 1 and 2 data were not reconciled under the same methodology as other groups. In essence, group 3 – 6 consumers' residual allocations would be swamped by UFG attributable to the larger group 1 and 2 consumers.</p> <p>Genesis Energy would be happy to provide specific worked examples of this effect if that were to assist the Gas Industry Company with its consideration of this exemption.</p> <p>On more typical gas gates, there is a greater proportion of volume consumed by group 3 – 6 consumers such that residual profile shapes are not significantly altered by variations in group 1 and 2 UFG.</p> <p>Genesis Energy appreciates that there might not always be a 'bright line' distinction between typical and</p>

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	<p>atypical gates in this respect. However, it should be possible (and desirable) to establish a process for judging in future whether particular gates should be reconciled using the global 1 month approach.</p>
<p>Q4: Do submitters have any comments on the direct consumer and non-shared gas gate exemption applications DR08-06-S from Genesis Energy, DR08-10-S from On Gas and DR08-11-S from Mighty River Power?</p>	<p>Genesis Energy supports approval of these exemptions for direct consumer gas gates.</p> <p>Genesis Energy does not support approval of these exemptions for non-shared (single retailer, multiple consumers) gas gates.</p> <p>Genesis Energy anticipates that implementation of the registry and switching rules early next year will improve consumers' ability to change retailers. As such, the likelihood of single-retailer gas gates persisting is diminished. In this context, Genesis Energy considers that exemptions should not be granted for any gas gate where there is the possibility of multi-retailer trading. Such gates are highly likely to require allocation and reconciliation in the near future.</p> <p>Genesis Energy does not have any objection to, and in fact supports, the Gas Industry Company being able to obtain good quality data on volumes traded at every gas gate. However, Genesis Energy is concerned that the reconciliation rules do not provide the appropriate avenue for achieving this.</p> <p>The OATIS system already holds this information and would be a better source for the Gas Industry Company to use without imposing further costs on participants.</p> <p>Genesis Energy believes that</p>

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	<p>inclusion of direct consumers in the downstream reconciliation process is an inefficient approach, leading to costly double-handling of information for no added value. There is no UFG to be allocated at these gates as metered volumes equal submission volumes. As such, the allocation and reconciliation process adds no value.</p> <p>Genesis Energy does however support the need for these sites to continue to meet the general allocation participant, metering accuracy, and audit obligations needed to support operation in the reticulated gas market.</p> <p>With respect to critical contingency arrangements, Genesis Energy can not see downstream reconciliation data providing a useful or necessary input. Downstream reconciliation data is monthly and ex post, whereas critical contingencies are managed on an intra-day basis. For ex post determination of contingency imbalances, information should be obtainable through OATIS. Genesis Energy can pick up on this point through its participation in the contingency management implementation group.</p> <p>Genesis Energy is pleased to note that gas injection gates will not be included in the downstream allocation process.</p>
<p>Q5: Do submitters have any comments on the exemption application DR08-05-S from Contact Energy regarding unmetered direct consumers?</p>	<p>Genesis Energy supports approval of this exemption in the event that exemptions DR08-06-S, DR08-10-S, DR08-11-S are not approved.</p> <p>In such an event, Genesis Energy</p>

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	<p>requests that this exemption should apply to all unmetered direct consumers. As per Q2, Genesis Energy considers that this would be the most efficiency-enhancing approach for the Gas Industry Company to take.</p>
<p>Q6: Do submitters have any comments on the ongoing fee exemption applications DR08-08-U from Contact Energy, DR08-07-U from Genesis Energy, DR08-09-U from On Gas and DR08-12-U from Mighty River Power?</p>	<p>Genesis Energy supports approval of this exemption in the event that exemptions DR08-06-S, DR08-10-S, DR08-11-S are not approved.</p> <p>As allocation processes provide no benefit for direct consumer connections (and little reconciliation time would be spent investigating such sites), it would be inconsistent with the user/causer pays principle for fees to be allocated to volumes consumed at these gates. Given the large volumes typically consumed at such gates, cost allocation would also be inconsistent with the equity principle.</p> <p>Genesis Energy considers that it would be very hard to justify the large fees that would apply to these gates.</p>
<p>Q7: Do submitters have any comments on the rule 41 exemption applications DR08-16-S from Vector and DR08-A14-S from MDL?</p>	<p>Genesis Energy does not support approval of exemption DR08-16-S from Vector.</p> <p>There are significant downstream consequences for other participants if Vector fails to provide data by the required time. Genesis Energy would support a movement of the time required for Vector to provide the information only if the downstream processing can still meet the timeframes prescribed in the rules.</p> <p>Vector should be required to meet this</p>

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	<p>deadline in the same manner as all other participants have deadlines that they must adhere to. There is a breach process available for dealing with instances where Vector fails to meet the timeframes.</p> <p>The information provided by Vector under these rules is too important for a lax approach to be taken to delivery timeframes.</p> <p>Genesis Energy supports approval of exemption DR08-17-S from MDL.</p> <p>As the allocation and reconciliation systems are under development, Genesis Energy expects that it would be more cost effective to process the information MDL already provides than to modify MDL's systems.</p>
<p>Q8: Do submitters have any comments on the rule 42 exemption applications DR08-15-S from Vector and DR08-13-S from MDL?</p>	<p>Daily energy quantities enable retailers to forecast gas gate consumption and it is important that such information is delivered in a timely manner.</p>
<p>Q9: Do submitters have any comments on the generic exemption application DR08-01-S from Greymouth Gas?</p>	<p>Genesis Energy does not support approval of this exemption.</p> <p>Genesis Energy does not believe that any retailer should be exempted from the reconciliation rules simply because they are small.</p> <p>All parties should be required to meet industry rules and need to manage the associated costs accordingly. It would be inequitable to provide small players with special treatment by allowing them to opt out of industry rules and the associated compliance costs.</p> <p>If some retailers were exempted from</p>



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	<p>the allocation process then the other retailers would pick up additional UFG. It's also not clear how there could be efficient allocation and accurate reconciliation on gas gates where one retailer's information was missing.</p>
<p>Q10: Do submitters have any comments on the transitional exemption application DR08-03-T from Nova Gas regarding the application of seasonal adjustment daily shape values?</p>	<p>Genesis Energy supports approval of this exemption on the condition that Auckland Gas/Nova Gas and Bay of Plenty Energy ensure that <b>all</b> their consumers have their meters read monthly and these monthly reads are used in the calculation of their monthly submission volumes.</p> <p>If monthly reads are used in the allocation and reconciliation processes then the impact of not using seasonal profile shapes should be minimised and final submission volumes should not shift too far.</p> <p>If these retailers are not able to meet the monthly read and submission condition, then Genesis Energy considers that the exemption should only run until March 2009. There is typically a large shift in volumes as temperatures drop. As such, seasonal profile shapes would be needed to allocate volumes to the correct months on the ramp up to winter.</p>