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Submitted via: Gas Industry Company website

Dear Ian

Further work required on options to improve initial allocation

Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide a submission to the Gas Industry Company ("the GIC") on the consultation paper "Downstream Reconciliation – Options" dated 16 December 2011.

Further analysis needed on improving the accuracy of the initial allocation

The GIC has presented four options aimed at improving the accuracy of the initial allocation process but has unfortunately supplied very little analysis of three of the four options – preferentially allocating UFG to causers (option 2), daily allocations (option 3), and establishing an alternative "top down" algorithm (option 4). This has made it difficult for participants to effectively compare all of the options and consider the costs, benefits and trade-offs. Given that the gas market is not large, any increase in costs for industry participants is of particular interest. We also note that each of the options are quite different, making comparisons more difficult. For example, the daily allocation process (D+1) could take away the need for the initial allocation submission.

Our preference is for an approach that provides retailers further information and incentivises them to improve their processes, rather than a penalty-based approach for allocating unaccounted for gas (UFG). We would also support an approach that monitors retailers' performance at the pipeline level, rather than at

individual gas gates. This provides a better benchmark of the actual operation of the gas system.

Given these concerns, we are unable to state which option we prefer to improve the initial allocation process. We recommend that the GIC develop further analysis on the last three options and seek further industry comment before proceeding to a Statement of Proposal.

Impact of market share on accuracy

The consultation paper is silent on the fact that Genesis Energy and Contact Energy are the two retailers responsible for the majority of the mass-market gas volumes and at present, both read customers' gas meters bi-monthly. This is important context that we consider should be factored into the GIC's evaluation of the options. It is the biggest contributor to estimation error and will continue to impact on the accuracy of initial submissions, independent of what option the GIC proceeds with. In addition, the extensive use of gas for space heating also makes the estimation process inherently difficult and subject to a certain degree of error. In future, we expect that progress in these two areas may be greatly assisted by the development and deployment of gas advanced meters.

Recommend splitting work into two phases to aid implementation

The consultation paper covers a diverse number of issues that range from complex changes to the initial allocation process through to relatively minor rule changes. We recommend that the GIC split this work into two phases so that the proposals outlined in sections four to eight of the consultation paper could be progressed earlier and further analysis could be undertaken on the four proposals in section three. We consider that it would be possible to implement the minor rule changes by mid-2012, while still ensuring that changes to the initial allocation process could be achieved by the October 2013 deadline.

Genesis Energy's responses to the consultation questions are in Appendix A.

If you would like to discuss any of these matters further, please contact me on 04 495 6354.

Yours sincerely



Karen Collins
Senior Regulatory Advisor

Appendix A: Responses to Consultation Questions

QUESTION	COMMENT
<p>Q1: Do participants agree that the option of making the SADSV available in advance of AG 4 and 6 initial consumption submissions is worth pursuing?</p>	<p>We agree that this option is worth pursuing but we have concerns about the reliability of the published seasonal adjusted daily shaped value (SADSV).</p> <p>From our experience, there has been a history of errors in time-of-use (TOU) or injection submissions that have corrupted the SADSV and led to incorrect mass-market submissions. These errors then continue every month thereafter until eventually corrected. In addition, the minimal time between publication of the SADSV data and the requirement to use it for the initial allocation may be insufficient to identify potential issues with SADSV data.</p> <p>We consider that there would be significant implementation costs associated with this proposal so a robust cost-benefit analysis would be required to justify such a change. We recommend that this analysis include an assessment of the effectiveness of this option assessed across all gas gates.</p>
<p>Q2: Gas Industry Co seeks feedback on the feasibility of staggering the submission of TOU and non-TOU data for the initial allocation and delaying publication of the results of the initial allocation. We also seek an indication of whether retailers would be able to accommodate the 24-hour period for processing and submitting non-TOU data once they received the SADSV.</p>	<p>We would not support a 24 hour processing period as presented in Alternative B. We believe it would result in more errors entering initial submissions as there would be insufficient time for processing and validations.</p>

QUESTION	COMMENT
<p>Q3: Do you agree that preferentially allocating UFG to causers is worth investigating as a possible alternative to the global allocation method for the initial allocation? If not, please provide reasons.</p>	<p>Yes.</p> <p>As noted in the cover letter, we consider that further analysis of the options presented in section three of the consultation paper is required so that participants can fully understand the relative costs and benefits of the options.</p> <p>In principle, we would prefer an approach that incentivises retailers to improve their processes, rather than a penalty-based approach for allocating UFG. As part of this option, we encourage the GIC to consider:</p> <ul style="list-style-type: none"> • the implications of allocating of UFG to causers at the pipeline level, rather than individual gas gates; and • allowing retailers a realistic tolerance band for accuracy of submissions, prior to determining the causers of UFG. We note that there are already provisions for this at the gas gate level and that this option has been raised in previous industry forums. <p>There will be difficulties associated with determining the “causers” of UFG and we disagree with the method the GIC has presented in the consultation paper. The GIC has sought to use absolute gas volumes in its analysis to represent the comparative accuracy between retailers. However, this approach is unacceptable as market share ratios would be the main influencing factor (particularly given the dominance of two retailers) in this data, not improvements in retailers’ accuracy. Refer to comments in the cover letter regarding market share.</p>

QUESTION	COMMENT
<p>Q4: What is your view of using the difference between a retailer's initial and interim submissions as the measure of accuracy?</p>	<p>We agree that using the difference between a retailer's initial and interim submissions is an appropriate measure of accuracy as the change between interim and final submissions is usually small.</p> <p>However, we caution that this approach may create perverse incentives. Participants may now seek to shift correction movements from the initial/interim/final submissions to the initial/final submissions, therefore making the interim submission essentially the same as the initial.</p>
<p>Q5: If a rolling average were to be used as the basis for measuring accuracy, how many months would you suggest the average be taken over?</p>	<p>It is hard to comment on an appropriate basis for calculating a rolling average without further information from the GIC on what exactly is to be averaged.</p> <p>However, our initial thoughts are that a rolling average should be calculated over a period of three to 12 months. This would ensure that seasonal fluctuations, such as heading in and out of winter, were allowed for. It is preferable to avoid a longer period as returns would take too long to manifest and this would weaken the incentives for retailers to make accuracy improvements.</p>
<p>Q6: One suggestion is to define "causers" as the bottom x% of retailers when ranked by submission accuracy. What value would you suggest for "x"?</p>	<p>We strongly disagree with this approach as it overlooks the fact that all mass market retailers contribute to UFG to some degree. In addition, there are only a small number of retailers at many of the gas gates, making it difficult to find an "x" value that would effectively capture the causers.</p> <p>We consider that it would be fairer and more effective for all retailers to receive a scaled apportioned share of UFG, based on their submission accuracy.</p>

QUESTION	COMMENT
<p>Q7: Do you agree that it is worth investigating the feasibility and cost of implementing daily allocations (D+1) at a pipeline level? Please provide reasons for your answer.</p>	<p>Yes.</p> <p>Daily allocations (D+1) seeks to address participants' main concerns with gas allocations by enabling participants to balance their gas positions throughout the month and it may remove the need for initial allocations).</p> <p>As noted in the cover letter, we encourage the GIC to undertake further analysis of this option so participants can fully understand the costs and benefits of the varying approaches.</p>
<p>Q8: If D+1 were to be implemented for BPP charges, would it be a concern for your organisation if transmission charges continued to be based on the existing initial allocation methodology?</p>	<p>No.</p> <p>Transmission charges based on initial allocations allow parties to manage overruns each month.</p>
<p>Q9: Do you agree it is worth investigating changing the initial allocation algorithm? Does your organisation have any suggested algorithm(s)?</p>	<p>Yes.</p> <p>The current algorithm lacks robustness in some situations such as dealing with negative and zero gas volumes. We recommend that the GIC review the following research paper to aid the development of alternative initial allocation algorithm:</p> <p>Brabec, M Malý, M Pelikán, E.-Konár, O (2010), <i>Statistical model of segment-specific relationship between natural gas consumption and temperature in daily and hourly resolution</i>, From: Natural gas. Sciyo. ISBN 978-953-307-112-1 (www.sciyo.com).</p>

QUESTION	COMMENT
<p>Q10: Do you agree that the purpose of the Reconciliation Rules would not be better served by having retailers who trade at direct connect gas gates subject to the global allocation methodology? If not, please provide your reasoning.</p>	<p>Yes.</p> <p>We support maintaining the current practice, where retailers who trade at direct connect gas gates are not subject to the global allocation methodology.</p> <p>We also agree that non-shared (single retailer) gas gates should continue to be subject to global reconciliation. Although there is only one retailer currently trading on a gas gate, it is important that the possibility for retail competition is maintained.</p>
<p>Q11: If you agree with Q9, do you also agree that the Reconciliation Rules should be amended as described above so as to obviate the need for exemptions in respect of direct connect gas gates?</p>	<p>Yes.</p> <p>It is important that the Rules reflect the current practice of exempting direct connect gas gates. We note that if the GIC decide to proceed with D+1, direct connect gas gate data would need to be available for this process. This data is required to enable data to be built up to the pipeline level for D+1 allocations.</p>
<p>Q12: Do you agree that the global methodology fails to produce acceptable results at gates that have a very high proportion of TOU load?</p>	<p>Yes.</p> <p>At gas gates with a high proportion of TOU load, any error in TOU volumes is incorrectly reflected in the mass market allocations, rather than in the TOU allocation.</p>

QUESTION	COMMENT
<p>Q13: Do you agree with the proposal to incorporate within the Reconciliation Rules provision for a framework for application of the global 1-month methodology at gas gates that meet specific criteria? If not, please provide your reasons and your suggested alternative approach to addressing the shortcomings of the global methodology in such circumstances.</p>	<p>Yes.</p> <p>The global 1-month methodology is the only fair method of allocation for a number of exceptional gas gates with high TOU load. We encourage the GIC to seek further industry input on the exact processes and criteria for approval that it seeks to include within the Rules.</p> <p>We recommend that the GIC consider expanding this proposal further if it proceeds with an initial submission process where SADSV are calculated prior to mass market submission. With the additional information available from the SADSVs, the allocation agent would be able to identify affected gas gates on a monthly basis that require the use of the global 1-month methodology and it could therefore allocate accordingly, to prevent TOU errors distorting mass market allocations. We consider that this would be a more proactive approach that would remove the need for ongoing exemptions and would avoid subsequent wash-ups to address allocation errors. A rule change would be required to establish this process.</p>

QUESTION	COMMENT
<p>Q14: Do you consider that all gas gates should have gas measurement systems installed? If not, please provide reasons. If you consider that there should be a threshold below which gas gate meters are not necessary, please describe both the threshold and the basis of measurement (e.g. monthly (average or peak) or annual volumes).</p>	<p>While it would be preferable to have gas measurement systems installed at all gas gates, it is unlikely to be economical to require gas measurement systems at gas gates with small consumption volumes. A trade-off needs to be made between the cost of the gas measurement system and the allocation errors created by estimated injection volumes. A process is needed to assess these trade-offs.</p> <p>A more appropriate alternative may be to apply an annual UFG to the submissions for gas gate volumes with oversized meters.</p>
<p>Q15: Do you agree that, for the purposes of this review, gas gates with oversized meters should be treated in the same way as gas gates that do not have meters installed? If not, please provide reasons.</p>	<p>Yes.</p>
<p>Q16: Do you think Gas Industry Co should consider making an explicit rule to enable correction of AUFG factors or should the exemption process be relied upon?</p>	<p>Yes.</p> <p>The GIC should consider an explicit rule.</p>

QUESTION	COMMENT
<p>Q17: Do you agree that the way in which ongoing costs are apportioned among retailers should be changed to 50:50 mix of volume and ICP numbers? If not, please provide your preferred apportionment method with supporting reasons.</p>	<p>No.</p> <p>This matter has been an issue of ongoing discussions since the start of the global reconciliation project and to date no method has surfaced that has received universal agreement from participants. We support maintaining the status quo where:</p> <ul style="list-style-type: none"> • allocation costs are driven by gas volume and costs should be allocated accordingly; and • registry costs are driven by the number of ICP records and should be allocated on this basis. <p>We consider that there needs to be a strong positive benefit identified to justify a change away from the status quo. GIC should be wary of making changes just for the sake of achieving a compromise between retailers with large gas volume and retailers with large customer numbers (ICPs).</p> <p><u>Changes to allocation of ongoing costs for the Registry</u></p> <p>Notwithstanding our comments above, if the GIC decide to proceed with a 50:50 split for allocation costs, then we recommend that changes also be made to the method for allocating Registry costs. This would ensure consistency in approach given that the same arguments for allocating Registry costs apply in inverse.</p>

QUESTION	COMMENT
<p>Q18: Do you agree that AG1 and AG2 data should only be treated preferentially when actual TOU data are being supplied? Which option do you prefer for addressing missing TOU data?</p>	<p>No.</p> <p>We recommend that the GIC consider the combination of options one and four in order to address missing TOU data.</p> <p>There are a number of reasons why retailers are sometimes unable to provide TOU data and we consider that retailers are best placed to know the most appropriate estimation methodology to apply under given circumstances. Given that there is a greater level of historical data collected for TOU sites, an estimation for the missing periods is still able to be made based on a strong data set. In addition, often the total volume for the month is known and it is only the intra-day spread that requires estimation.</p> <p>We recommend that a breach notice would be issued for the initial event only and the retailer's response would include a determination on the estimation methodology to be used and whether estimations are likely to be replaced.</p>

QUESTION	COMMENT
<p>Q19: Do you agree that meter owners should have more obligations under the Rules? Do you agree that some of the obligations placed on retailers would be more appropriately placed on meter owners?</p>	<p>No.</p> <p>We consider that it is more appropriate that issues between retailers and meter owners regarding breaches be addressed through existing commercial arrangements. Meter owners are not specified participants under the Rules and therefore have no clear obligations beyond Rule 27. In addition, we note that breaches relating to meters are not always caused by the meter owner but occasionally by the customer.</p> <p>Commercial arrangements should ensure that meter breaches are addressed in the most efficient manner by placing responsibility on the party best placed to address the matter.</p> <p><u>Performance of meter owners</u></p> <p>We note that reliance on commercial arrangements will not enable parties to understand the overall performance of a meter owner with all of its contracted retailers. However, trends in the total number of breaches would be visible to the GIC and should be monitored to identify any potential concerns.</p>
<p>Q20: If you have been or are regularly notified of a breach of Rule 39 by the Allocation Agent, is there a problem you can identify with the Rules or with the Registry that could be changed without compromising the intent of the downstream reconciliation process?</p>	<p>The vast majority of our late trading notification breaches occur as a result of a back dated switch. If the switch transaction physically completes prior to the allocation process, then querying the Registry will advise the allocation agent of this but the retailer will still be in breach of the notification timeframe.</p>

QUESTION	COMMENT
<p>Q21: Do you agree that exemptions should only be permissible where there is a reasonable substitute available that achieves the intent and purpose of the Rules or in an “exceptional circumstance”? What sort of situations do you believe would warrant an “exceptional circumstance”?</p>	<p>Yes.</p> <p>We support option three in the consultation paper that recommends that the Rules prescriptively outline what circumstances will warrant an exemption. While we do not have any specific situations to put forward, we are of the general view that exemptions should be available for circumstances where adherence to the Rules would be to a greater detriment to the industry as a whole, not just to the requesting party.</p>
<p>Q22: If Gas Industry Co removes the exemption provisions, are there specific circumstances or situations that you believe warrant consideration for specific rule amendments now so as to remove the requirement for a future exemption?</p>	<p>We recommend that the GIC consider specific rule amendments for the application of the global 1-month methodology (as described in section 4.2 of the consultation paper).</p> <p>Refer to our comments under question 13.</p>
<p>Q23: Given the Rules are unlikely to be reviewed again in the near future, are there other issues you would like Gas Industry Co to consider before a Statement of Proposal is released for consultation? Please be specific with your suggestion(s) and where possible provide supporting evidence.</p>	<p>No.</p>

QUESTION	COMMENT
<p>Q24: Do you agree with the proposed timeframe for implementing any rule changes?</p>	<p>We consider that the proposed “go-live” timeframe of October 2013 is appropriate for the proposals to address initial allocation accuracy (section 3 of the consultation paper). However, as noted in the cover letter, sections four to eight of the consultation paper could be progressed earlier. Many of these rule changes are minor in nature and could be implemented within a shorter timeframe.</p> <p>We recommend that the GIC separate this work stream into two phases and consider implementing the minor rule changes by mid-2012.</p>
<p>Q25: Do you consider that creating an advisory group similar to the GART is worthwhile for the purposes of developing rule changes as a result of this policy review?</p>	<p>Yes.</p> <p>We offer our support to help progress this work.</p>