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23 September 2010

Andrew Walker
Gas Industry Company
95 Customhouse Quay
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By email: submissions@gasindustry.govt.nz

Dear Andrew

Consultation on Rule 37 percentage of error

Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide a submission to the Gas Industry Company on the consultation paper "Rule 37 percentage of error determination under the Gas (Downstream Reconciliation) Rules 2008" dated September 2010.

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 6357

Yours sincerely,

A handwritten signature in black ink that reads "John Bright".

John Bright
Regulatory Affairs Analyst

Appendix A: Responses to Consultation Questions

| QUESTION | COMMENT |
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| <p>Q1: Do submitters support the determination of a +/-10% percentage error for consumption periods in the 2010/11 gas year under rule 37.3? Please provide reasons for your preference and indicate your views in respect of each option.</p> | <p>Genesis Energy supports the determination of a +/-10% percentage error provided the seasonal adjustment daily shaped value (SADSV) changes and split allocation processes will be in place.</p> <p>Genesis Energy's own analysis has shown that the largest causer of inaccurate estimations is poor SADSVs produced for gas gates owing to errors in:</p> <ul style="list-style-type: none"> • injection volumes; • group 1 and 2 sites disproportionately affecting group 3-6 allocations; and • not having current SADSV information at the time of submission. |
| <p>Q2: Do submitters consider the information available since go-live indicates that a change to the existing percentage of error is appropriate or not?</p> | <p>Genesis Energy agrees the percentage error could be reduced but the information presented in the consultation paper does not necessarily reinforce such a conclusion.</p> <p>The information provided does show a number of things, including:</p> <ul style="list-style-type: none"> • since go live and the establishment of a central registry, retailers have improved the accuracy of data held; • no estimation model, however good, can predict and account for extreme events such as the |

| QUESTION | COMMENT |
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| | <p>May and June 2009 weather patterns;</p> <ul style="list-style-type: none"> the data constructed by the SADSVs improves with each monthly wash-up <p>In light of this, Genesis Energy suspects the main drivers for the reduction in percentage error breaches has been correction of data brought about by the transparency of the whole global reconciliation process and retailer's commercial drivers to improve submission allocations, rather than changes to the percentage error threshold.</p> |
| <p>Q3: In respect of the proposal for the percentage of error, do submitters have any comments or information in relation to the following matters?</p> <ul style="list-style-type: none"> The primary aim of ensuring consumption information provided for initial allocation is as accurate as possible when compared with consumption information provided for final allocation The extent to which retailers are able to comply with the percentage of error for the accuracy of consumption information provided for initial allocation Any expected costs that would be reasonably incurred by retailers to achieve compliance with the percentage of error for | <p>Genesis Energy agrees that the primary aim should be ensuring consumption information provided for initial allocation is as accurate as possible;</p> <p>A participant's estimation algorithm is only one factor in submission accuracy. Back-dated switches, meter changes, one or several decommissioning events, new connections, and meter reader efficiency all affect submission volumes;</p> <p>No, Genesis Energy would not put a specific program in place simply because the percentage error was reduced, although Genesis Energy will</p> |

| QUESTION | COMMENT |
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| <p>the accuracy of consumption information provided for initial allocation</p> | <p>always seek to improve on its submission accuracy nonetheless. An obvious way to improve submission accuracy would be to have all ICPs read monthly but at a cost of around \$1 million per annum this is not justified by the resulting submission accuracy benefits alone.</p> <p>A more effective and less costly method to achieve compliance and improve accuracy would be to focus on improvements in the allocation process to remove the inconsistencies that flow back to retailers and affect estimation algorithms.</p> |
| <p>Q4: Do submitters support an exemption for all percentage of error breaches that are less than 200GJ outside compliance with rule 37.2? Please provide reasons.</p> | <p>Genesis Energy supports the exemption proposal but queries whether the measure of 200GJ is overly simplistic. 200GJ would be an insignificant amount at a large gate in the middle of winter yet could be a significant error on a small gate in summer. Genesis Energy suggests a materiality measure is more appropriate which takes into account gate size or volume and the impact the gate has on the total market rather than simply how many breaches the threshold would avoid.</p> |