



GREYMOUTH GAS

Minor Amendments to the Gas (Downstream Reconciliation) Rules 2008

Submissions close 30 June 2009

Greymouth Gas New Zealand Limited (Greymouth Gas) is pleased to make a submission to this paper and we welcome the opportunity to submit.

- 1) In relation to the proposal to amend rule 45 to reflect the existing allocation process and ensure that all gas quantities are allocated; do you agree or disagree with the proposal, do you have any comments on the specific drafting proposed, and do you agree or disagree that the proposal meets the requirements of section 43N(3) of the Act?**

Greymouth Gas recognises the need to match injection quantities with allocation quantities, however we do not agree with the proposed changes.

If rule 45.2.7 and the zero-floor gas gate residual profile changes occur, then there will be significant possible adverse effects because known TOU data will become "subject to change". This is a substantial change from current practice.

The changes outlined in Question 1 therefore do not meet the requirements of section 43N(3) of the Act and should not proceed as part of this amendment.

As an aside, the process for applying part of the zero-floor change is questionable and there are problems with the proposed drafting of rule 45.2.7.

Major Policy Implications

The theme of rule 45 of the Minor Amendments to the Gas (Downstream Reconciliation) Rules 2008 (the Paper) is that any remaining gas is allocated across all Allocation Groups at a gate, even Groups 1 and 2.

This is a major policy shift because TOU data in Allocation Groups 1 and 2 is currently locked-in and is not subject to wash-up quantities.

Allocation Groups 1 and 2 have daily consumption data that must be provided to the Allocation Agent (rule 30.1.1). This happens via a TOU device which captures accurate daily readings and temperature and pressure factors, meaning super-compressibility factors can also be calculated. This is the most accurate data.

All other Allocation Groups only need monthly consumption to be provided (rule 30.2.2). When comparing this data with TOU data captured in Allocation Groups 1 and 2, there are a number of shortcomings with Allocation Group 3 to 6 data:

- Temperature and pressure is not measured and super-compressibility may not be calculated accurately, meaning site-specific factors are not as robust
- The actual daily split is not known
- A substantial amount of data is estimated

Retailers who invest in daily, accurate TOU meters get the benefit of being in Allocation Groups 1 and 2 and they should be rewarded for this investment, not penalised.

TOU data is the most accurate type of data and should not be subject to any further wash-ups or allocation adjustment resulting from poor Allocation Group 3-6 data, poor gas gate data or wider UFG issues.

Greymouth Gas submits that the proposed rule changes in Question 1 do not meet the requirements of section 43N(3) of the act, because the recommendation adversely affects retailers with data in Allocation Groups 1 and 2.

In this instance, participants would be adversely impacted when managing their Running Mismatch, Mismatch and subsequent exposure to ILONs. This is because known TOU deliveries may then become "subject to change", which is a major policy shift.

At a minimum the changes outlined in Question 1 should go through the full analysis as required in section 43N(1) of the Act.

Zero-Floor for Gas Gate Residual Profiles

The absence of a zero-floor gas gate residual profile currently means that there is no wash-up quantity to allocate to Allocation Groups 1, 2, 3 or 5 as per the Transitional Exemption, as Allocation Groups 4 and 6 wear the swing as per rule 45.2.6.

If a zero-floor gas gate residual profile was applied, then this would mean that Allocated Quantities \neq Gas Gate Quantity on occasions, thus there would be a wash-up quantity. Allocation Group 1 and 2 data would then be "subject to change" and for the same reasons outlined in the above section, this is a major policy shift and penalises those who have invested in TOU equipment.

Greymouth Gas therefore disagrees with the proposal of a zero-floor gas gate residual profile. It is a major policy shift and thus does not meet the requirements of section 43N(3) of the Act.

Allocating wash-up quantities using a rule introduced in a transitional exemption is also questionable.

Comment on Transitional Exemptions

Unfortunately, it seems like the GIC has already allowed the mechanics for wash-up quantities to be allocated via the Gas (Downstream Reconciliation) Rules 2008 (Exemption DR08-13-T: Group 1, 2, 3, and 5 Consumer Installations) Notice 2008 (the Transitional Exemption) and is now looking at passing the zero-floor gas gate residual profile concept to create wash-up quantities in order to allocate.

Aside from disagreeing with the zero-floor gas gate residual profile concept, we also question the process whereby these rule changes are happening.

Rule 45.2.5 only allows for calculation of the gas gate residual profile. The problem arises in the Transitional Exemption, whereby clause 3(a) of the Transitional Exemption extends the rules allowing for the calculated gas gate residual profiles to then be allocated to Allocation Groups 1, 2, 3 and 5.

Rule 81.2 of the Gas (Downstream Reconciliation) Rules 2008 (the Rules) allows for the GIC to set alternative arrangements for participants that have been exempt from something via a transitional exemption; with that exemption setting out alternative arrangements for complying with the rules. The GIC has exempt part of rule 45.2.6 which relates to Allocation Groups 4 and 6; however, in setting out an alternative way of complying with the Rules for Allocation Groups 4 and 6, the GIC has added in a new rule for Allocation Groups 1, 2, 3 and 5.

Rule 81.2 of the Rules does not allow for a re-write of unrelated rules. The GIC is asked to explain the basis for adding a new clause to the Rules by submitting a transitional exemption notice for a clause which was unrelated to the original exemption. This appears to be ultra vires.

It appears that part of the process of this Paper is to incorporate some of the transitional exemptions into the Rules. This is a back-door approach whereby a transitional exemption can be granted without rigorous analysis and then brought into the Rules as a minor amendment. This is another reason why contentious issues should be subject to section 43N(1) of the Act.

Wider Data Problem

Coming up a level, picture this; you have one gas gate with Allocation Group 1 or 2 customers. Allocation Group 1 or 2 data is adjusted for altitude, pressure, temperature and super-compressibility, thus making it very accurate.

Vector has previously advised via email that gas gate data is adjusted for pressure and temperature, but not for super-compressibility. Doesn't this make TOU data more accurate than gas gate data? Why socialise the wash-up quantity?

Super-compressibility factors can range from, say, 0.99 to 1.04, which is similar to the AUFG factors. If Vector is not applying super-compressibility to gas gate data, is this not a prime source of UFG? Has this been discussed or investigated at a policy level?

Greymouth Gas disagrees with all proposals in this section because wider policy issues need addressing and the reward for investing in TOU data needs to be protected.

Accordingly, we submit that the proposal does not meet the requirements of section 43N(3) of the Act.

45.2.7: Problem with Specific Drafting

Notwithstanding our submission that rule 45.2.7 and the zero-floor gas gate residual profile concepts should not proceed, we also note a flaw with the proposed drafting.

Let's assume 45.2.7(c) holds true and there is a wash-up quantity to allocate.

This means that the scaled quantity of gas is equal to the allocated quantity (which is zero, assuming no AQ which is true if 45.2.7(c) is true). This is then added to the next component to work out the scaled quantity of gas to be allocated to each Allocation Group.

The next component takes the injection quantity (say 100GJ) less zero AQ, which is 100GJ; this is then multiplied by the $AQ/\Sigma AQ$. However, because the AQ is zero (as there are no data submissions and because rule 45.2.7(c) only holds true if ΣAQ is zero), then you end up with $100GJ * 0 = 0$.

Add the two components together and the SAQ therefore becomes $0 + 0$, which = 0. Therefore none of the wash-up quantity would be allocated to any Allocation Group if rule 45.2.7(c) held true, and Vector would be allocated UFG.

Even though Allocation Group 1 and 2 data would not be subject to a wash-up quantity, we disagree with rule 45.2.7 because the intent is to assign a wash-up quantity to these Allocation Groups.

2) In regard to the proposal to amend rules 31, 41 and 48 so that injection and consumption information and allocation reports can be provided at 1200 hours rather than 0800 hours; do you agree or disagree with the proposal, do you have any comments on the specific drafting proposed, and do you agree or disagree that the proposal meets the requirements of section 43N(3) of the Act?

Greymouth Gas agrees that this is a minor change and meets the requirements of section 43N(3) of the Act, and we make no comment on the specific drafting proposed.

We agree with the proposal to amend these rules because 8am is generally outside working hours and it makes sense to have a deadline for provision of information within normal working hours.

3) Question 3...

No comment.

4) In regard to the proposal to include a new sub clause 26.4 which will enable the Allocation Agent to reasonably request any information required for its role; do you agree or disagree with the proposal, do you have any comments on the specific drafting proposed, and do you agree or disagree that the proposal meets the requirements of section 43N(3) of the Act?

Greymouth Gas agrees that this is a minor change and meets the requirements of section 43N(3) of the Act, and we make no comment on the specific drafting proposed.

We agree with the proposal to enable the Allocation Agent to request additional information as this promotes greater transparency and market efficiency.

5) Question 5...

No comment.

6) In relation to the proposal to amend rules 5, 30, 41, 44, 45 and 48-50 to better reflect the role of the TSOs and transmission arrangements in the downstream allocation process; do you agree or disagree with the proposal, do you have any comments on the specific drafting proposed, and do you agree or disagree that the proposal meets the requirements of section 43N(3) of the Act?

Greymouth Gas agrees that this is a minor change and meets the requirements of section 43N(3) of the Act.

We agree with the proposal to amend rule 5, but we think that the words in the definition make it unclear as to whose assigned identifier retailers should use. Most of the time I suspect they are consistent, however, sometimes Oatis identifiers may differ from TSO contract identifiers which may differ from retailer's identifiers; we encourage clarity with the specific drafting to avoid doubt.

We agree with the proposal to amend rule 30.4, but suggest that the words in the definition imply that there is a corresponding TSA for every ICP. We caution accuracy here because, whilst all ICPs fall under the umbrella of a TSA, some ICPs have their own Supplementary Agreements, with their own unique numbers.

- Firstly, the Rules should acknowledge that submitting a TSA number does not automatically mean that ICP number will be assigned to that TSA. I.e. there needs to be some exclusion such that an ICP with a Supplementary Agreement will be allocated under that contract (with special prices) and not under the TSA (under posted prices).
- Secondly, the Rules make no mention of Supplementary Agreements, and arguably they should if the proposal includes referring to TSAs.

We agree with the proposal to amend rules 30.5, 41, 44 on the basis of consistency and current practice.

We make no comment on rule 45 because this was addressed in Question 1.

7) In relation to the minor drafting changes proposed in section 3.7; do you agree or disagree with the proposal, do you have any comments on the specific drafting proposed, and do you agree or disagree that the proposal meets the requirements of section 43N(3) of the Act?

Greymouth Gas agrees that these are minor changes and meet the requirements of section 43N(3) of the Act.

We agree with the proposal to amend rules 15 to 18, but there is a problem with the specific wording proposed. The due date for payment is the 20th of the month in which the invoice was received, or if that's not a business day, on the following business day.

- If an invoice is received after the 20th and it is a business day, payment would be required on the 20th which isn't possible.

- Participants should have at least 10 business days to make payment, particularly if an invoice is received after the 20th of a month.

We disagree with the proposal to amend rule 42, because this increases our workload without tangible benefit to anyone. Allocation Groups 3-6 is where the problem is, so we suggest these groups submit monthly validated readings, or that the Rules note that Allocation Groups 1 and 2 have to provide this annually, or not at all, noting that these, by nature, are validated readings.

We make no comment on the proposal to amend rules 23, 24, 35, 40.1, 40.2, 52-54, 62, 75 and 82-84, and we have already commented on rule 30.

8) Questions 8 & 9...

No comment.