

Submission on Participant Requests for Exemptions.

Submission from: Nova Gas.

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Question	Comment
<i>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?</i>	<p>The distortion that the exemption seeks to relieve is created by the decision by the GIC to cap UFG for the TOU customer class and subject the non TOU customer class to uncapped residual UFG.</p> <p>Nova highlighted this inequitable and inefficient outcome during the consultation rounds.</p> <p>The GIC's analysis and justification for the capping of UFG for TOU customers was inadequate and will result in a transfer of wealth from the non TOU class of customer (commercial and residential). We note that the GIC accepts that there is no evidence of one class of customer contributing more or less to UFG.</p> <p>Rather than exempt these gates from a flawed UFG allocation methodology, Nova believes that the rules should be changed to allocate UFG on a proportional basis among all customer groups.</p>
<i>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?</i>	<p>Nova supports that dedicated gas gates should be exempted from the requirements of the Reconciliation Rules.</p> <p>The new reconciliation rules should only apply to gas gates that require the services of an Allocation Agent in order to support competition on open access networks.</p> <p>Where reconciliation services are not required</p>
<i>Q3: Do submitters have any comments on the global 1 month methodology exemption applications DR08-02-S from Genesis Energy and DR08-04-S from Contact Energy?</i>	<p>Refer to comments under Question 1.</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?

Nova supports the principle that the rules should only apply to those gates that require allocation of gas quantities between multiple trading parties and consumers. Where there is only one consumer supplied by one retailer exclusively then the imposition of the requirements of the Reconciliation Rules can only mean additional costs for the retailer and the Allocation Agent.

Those additional costs are in relation to retailers application of resources for the purposes of collecting, preparing, validating and submitting data in accordance with the rules to the Allocation Agent. The Allocation Agent under their service agreement also has obligations to fulfil with respect to data submitted for those gates.

Direct consumer gate data may not be collected and stored in normal systems given the nature and source of the metering data so preparation of data for reconciliation purposes could be an additional workstream and not simply an additional gate to be included along with other gates data streams.

For example, Nova has one direct connect customer and the data that is used for billing is the gate data downloaded directly from the Vector OATIS system that is also used for determining transmission charges and upstream allocations.

We agree that there is a difference between a direct connect exclusive supply arrangement and a situation where there are multiple sites supplied by one retailer. So long as the supply to the several sites is via an open access distribution network that contemplates the potential for supply to those by multiple retailers then the Reconciliation Rules should apply. Publishing of UFG for such situations is important also so that barriers to competition for new entrants to that gate are not created given information asymmetry between the incumbent retailer and the new entrant.

<p><i>Q4: continued</i></p>	<p>Nova would prefer to see through time exemptions being replaced by rule changes where there is a common need. Permanent exemptions should be for exceptional circumstances only. Temporary conditions provided could be conditional upon rules being changed that remove the need for the exemption.</p> <p>In terms of the overall objectives we believe granting the exemptions requested (except for the multiple customer, one retail gates scenario) is consistent with S43ZN of the Gas Act in that arrangements will be more efficient and costs of supply reduced resulting lower prices for customers. Granting the exemptions for direct connect gates will provide for full allocation of quantities in the most efficient manner possible consistent with the purpose of the Reconciliation Rules.</p>
<p><i>Q5: Do submitters have any comments on the exemption application DR08-05-S from Contact Energy regarding unmetered direct consumers?</i></p>	
<p><i>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?</i></p>	<p>If the exemptions from the rules relating to direct connect gates of are granted, then logically there should be an exemption from the fees associated from the allocation process.</p> <p>Direct Connect gates derive no benefit (only costs) from the allocation process. If a proportion of the costs of the allocation process were to be born be direct connect consumers then this would represent a cross subsidy between direct connect consumers and other consumers and would be economically inefficient.</p> <p>This will mean that the costs of delivery on open access networks where reconciliation is required are marginally higher and this is consistent with the user pays principle.</p> <p>Regarding the issue of UFG and measurement, UFG will exist if there is more than one meter measuring consumption. The issue is about responsibility for UFG. At gates where allocation of gas quantities between multiple retailers is necessary, UFG responsibility is implicitly allocated.</p> <p>This is not an issue at direct connect gates as either the responsibility is allocated to the customer if the meter at the interconnection point is used for billing purposes or to the retailer if metering at the consumers site is used for billing purposes.</p>

<p><i>Q7: Do submitters have any comments on the rule 41 exemption applications DR08-16-S from Vector and DR08-14-S from MDL?</i></p>	<p>Nova believes that instead of an obligation to provide “validated metering”, perhaps the obligation should be reduced to simply provide estimated or non validated data if validated data is not available and submit revised data if necessary at a later date for inclusion in the washup process.</p> <p>Vector should be responsible for its own costs in meeting its obligations under the Reconciliation Rules consistent with the principle that all other participants are having to meet the costs of compliance with the rules.</p> <p>The reasonable endeavours approach promoted by Vector may well be an acceptable approach in a contractual governance regime but in a regulatory context with a compliance regime for considering breaches of the rules, we believe firm specific obligations work best. Rule breaches and consequences fall under the ambit of the compliance regime and issues such as ability to comply etc are taken into account at that stage.</p>
<p><i>Q8: Do submitters have any comments on the rule 42 exemption applications DR08-15-S from Vector and DR08-13-S from MDL?</i></p>	

Q9: Do submitters have any comments on the generic exemption application DR08-01-S from Greymouth Gas?

Nova believes that it would not be appropriate for any party to be exempted from all of the Reconciliation Rules.

There are many reasons for this including:

- 1) For the allocation process to be feasible in an open access environment all retailers must submit data. Greymouths proposal to exempt themselves from this requirement is not logical as it would result in other retailers being allocated gas associated with their customers through UFG.
- 2) Greymouth should be subject to the same general obligations re standards of record keeping, accuracy of data, audit, etc so that UFG can be effectively managed.
- 3) As the GIC has stated in its consultation papers that there is no evidence to suggest that TOU customers contribute less to UFG than other customers then there should be no differential treatment because a retailer supplies one class more than the other.
- 4) 10% of gas gate volumes is relatively significant for one retailer. We also note that while the metered volumes may be 10%, there is no guarantee that there not a metering error present and that actual consumption is not actually higher.
- 5) Nova doubts that there would be significant cost associated with compliance if as they suggest they have only a few TOU customers. The costs of simply submitting data already submitted to the current Allocation Agent for 10 sites in a different file will be immaterial. Other retailers are having to bear significant costs in achieving compliance with the rules so it would be inappropriate to provide an exemption to one party without expecting others to then request similar exemptions which would ultimately defeat the purpose of having the rules in the first place.
- 6) Granting such a broad non specific exemption with justification to one retailer would not meet the objectives of S43ZN of the Gas Act or the purpose of the Reconciliation Rules. Specifically, granting such a broad exemption would result in inefficient and unfair allocation outcomes.

<p><i>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?</i></p>	<p>The GIC has requested that Nova demonstrates that it is unable to comply with the rules.</p> <p>Novas (and that of its affiliate retail entities Bay of Plenty Energy and Auckland Gas) current billing systems do not provide for the application of seasonal profiles as required by the new rules.</p> <p>Due to the legacy nature of the billing systems and Bay of Plenty Energy's in particular, the decision has been made to build a new purpose built reconciliation system independent of the billing system. The database design and the back office processes around the database will be similar to that used by Todd Energy (Nova's parent company) for the purpose of electricity reconciliation. Even so the systems design, development, testing and implementation must proceed in accordance with good IT industry practice and as such that will take time.</p> <p>Functional specifications for Reconciliation have only recently been published so little work has yet begun on development of the new system.</p> <p>It would be imprudent to begin development of the new reconciliation system prior to functional specifications being finalised. The Maui OATIS system is an example of what happens when organisations proceed to develop systems before the requirements are properly specified. MDL incurred costs of approximately \$10m in developing the OATIS when initial estimates were for less than \$3m.</p> <p>In terms of the impact on reconciliation results of not using seasonal profiles in the calculation of interim reconciliation results for a period of time (February 2009 through June 2009) we note the following:</p> <ul style="list-style-type: none"> - Auckland Gas supplies approximately 5,000 residential and small commercial customers in the Auckland and Wellington areas and those customers are all have their meters read monthly. This reduces the potential for estimation error in reconciliation data due to seasonality. - Bay of Plenty Energy supplies approximately 1,300 residential customers in the Bay of Plenty that have their meters read every two months.
<p><i>Q10: Continued</i></p>	<p>As a result, the effect on allocation results should be minor and those effects will be corrected through the final washup process.</p> <p>In response to the question regarding giving too much priority to the implementation of the switching arrangements, we note that there is no provision for the "washup" of late switching activity and that late switching has more of an impact on other retailers and customers than the non application of seasonal profiles for interim allocation.</p>

