

**Nova Gas submission regarding Options for Amending Allocation and Reconciliation Arrangements**

QUESTION	COMMENT
<p><b>Q1</b> Do you agree that it is sensible to divide the issues (with the downstream and upstream allocation arrangements) into short-term and long-term issues and to advance the short-term issues ahead of the long-term ones?</p>	<p>Yes</p>
<p><b>Q2</b> Do you agree that compliance with existing arrangements for downstream allocation is poor?</p>	<p>To some extent.</p> <p>Nova Gas believes that the current Reconciliation Code that was developed several years ago has not changed significantly in response to industry concerns.</p> <p>In recent years those concerns have been growing as the retail market is fragmenting and as participants improve their data management processes.</p> <p>The lack of change is due to ineffective governance arrangements embedded within the code and specifically there is no change process that facilitates developments and improvements.</p> <p>We also note that much of the change is being driven by industry change and the desire for:</p> <ul style="list-style-type: none"> <li>- improved processes</li> <li>- greater accuracy</li> <li>- more equitable outcomes</li> </ul> <p>It is disappointing to note that an audit of several gates in the Lower North Island requested by an incumbent retailer was impeded by one retailers refusing to provide data as provided for by the Reconciliation Code.</p> <p>Given the contractual obligations for retailers to comply with the Reconciliation code, we believe that the auditor should be able to resort to legal action if necessary to obtain the required data. It may be that the drafting of the code and the contractual chain is not sufficient for this purpose and legal remedy is not currently a practical option.</p>

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<p><b>Q3</b> Do you agree that governance arrangements (e.g. code modification processes, dispute resolution processes) are not working effectively? Please provide any specific examples that demonstrate your view.</p>	<p>Agreed. The current arrangements do not have a process at all for modifying the Reconciliation Code in a practical fashion. While there is nothing preventing industry participants agreeing new arrangements, the process could be hindered by a minority of participants engaging in hold out behaviour.</p> <p>The example of one party withholding data is above demonstrates that it is in the best interests of the industry to put in place appropriate rights for:</p> <ul style="list-style-type: none"> <li>- auditors receiving data</li> <li>- dispute resolution</li> </ul> <p>These provisions should be able to incorporated with a modified reconciliation Code.</p> <p>Distribution arrangements may also be required to change to ensure that parties have a contractual right that they can enforce re provision of data to an auditor.</p>
<p><b>Q4</b> Do substantial difficulties arise as a result of the need for all shippers at a gate station to agree who to appoint as the allocation agent?</p>	<p>Theoretically yes. Although there have not been any issues to date, the current requirements for effectively unanimous agreement provide potentially for hold-out behaviour that may prevent change.</p>
<p><b>Q5</b> Do you agree that the Gas Industry Co should implement a regime where the Gas Industry Co becomes the single industry body responsible for appointing an allocation agent (or allocation agents)?</p>	<p>We believe that the level of involvement necessary currently should only be in an oversight role.</p> <p>Should industry arrangements prove impractical or contentious, then there may be a case for a wider role in selection and appointment.</p>

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<p><b>Q6</b> Does the use of the “difference” allocation method and the resulting implications for the allocation of UFG variations create a substantial problem in the industry?</p>	<p>It creates risk for incumbent retailers that they may not be willing to bear, especially when their proportion of the volume traded at a gate drops below a significant percentage.</p> <p>Equally, there are some cost benefits of being an incumbent in that there is a lower degree of compliance regarding meter reading – particularly with non TOU meters.</p> <p><b>We believe there is currently a process for incumbent retailers at a gate to switch to the global reconciliation methodology. There is no external reason why current incumbent retailers should not be able to change to global reconciliation as provided for.</b></p>
<p><b>Q7</b> If there are problems with the allocation of UFG variations, is working towards mandatory global allocation an appropriate response for the Gas Industry Co?</p>	<p>We believe that reconciliation using the differencing method should be an option for retailers. In some instances due to the nature of trading volumes at a gate it may be more efficient in terms of costs.</p> <p>Some gates may have a few large TOU customers, a small number of non TOU customers and trading volumes dominated by a retailer that may make using the differencing method less costly.</p> <p>The only issue that non incumbent retailers have with trading at a gate where a competitor retailers is the incumbent is with potentially overstated fixed UFG percentages calculated by the distribution company. Unless the incumbent retailer submits there volumes for reconciliation it is very difficult to calculate what UFG technically should be.</p>

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<p><b>Q8</b> If global allocation is not made mandatory, how important would it be for 12 month rolling loss factors to be used in the allocation process?</p>	<p>As noted above, one of the main issues with the differencing method currently is the calculation of loss factors or UFG that is allocated to independent retailers on a fixed basis. If the loss factor is too high then the incumbent retailers received a windfall benefit at the expense of non incumbents. If it is too low, then the opposite is true.</p> <p>This also suggests that the calculation of loss factors can affect the ability of retailers to compete depending on whether they are disadvantaged by loss factors or not.</p> <p>In order to overcome this deficiency in the differencing method, distribution companies should have some obligation to:</p> <ul style="list-style-type: none"> <li>a) calculate what UFG should actually be</li> <li>b) ensure that UFG reflects such events as gas escapes, leaks and other technical reasons for UFG</li> <li>c) ensure that all connections to the network are recorded and allocated to a retailer who is responsible for reconciling consumption at that site</li> <li>d) ensure that metering standards are adhered to by participants</li> </ul>
<p><b>Q9</b> Should all gas gate daily metered quantities be published daily? What difficulties (e.g. confidentiality) might arise from daily publication?</p>	<p>Yes.</p> <p>Issues of confidentiality we believe are overstated. However, we believe that the industry has agreed a solution that the issue of confidentiality by aggregating those gates that may be dedicated to one or two retailers.</p> <p>Daily gate data is expected to be published via the Vector version of OATIS later this year.</p> <p>Availability of daily data is critical for parties who may prefer the option of attempting to more accurately forecast consumer demand, particularly for non TOU customers where.</p> <p>Several years of data should be made available if the data is to useful through the application of statistical techniques.</p>

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<p><b>Q10</b> To what extent do industry problems arise as a result of poor quality data supplied into the allocation process?</p>	<p>As a non incumbent we are not aware of the extent of the problem apart from what incumbent retailers tell us.</p> <p>Two significant incumbent retailers have disclosed that:</p> <ul style="list-style-type: none"> <li>a) they are allocated significantly more volume than they believe their customers consume;</li> <li>b) the non TOU consumption they calculate to compare against their incumbent allocation each month can be over or under estimated by as much as 20% due to the fact that they read meters once every two months. The accuracy only improves after 3-6 months as actual meter reads are collected for a significant percentage of customers. Such inaccuracy itself would add significantly to UFG unless appropriate mechanisms were put in place such as washups and seasonal residual profiles.</li> </ul> <p>Other issues affecting reconciliation are :</p> <ul style="list-style-type: none"> <li>- oil contamination that is believed to have affected gate meter data in at least one instance</li> <li>- meter owners and retailers failing to ensure that details such as multipliers and other critical site details are passed on to new retailers at the time of switching or installation</li> </ul>
<p><b>Q11</b> Should the Gas Industry Co introduce formalised, regular wash-ups of month end allocations after 4 or 6 months and after 12 months following the month in question?</p>	<p>We think that the industry should introduce a limited number of washups.</p> <p>A 4 month and a final 12 month washup we believe are appropriate.</p> <p>In addition, we believe that seasonal residual profiles should also be introduced as a requirement where a retailer does not read a sites meters at or near month end.</p> <p>Seasonal residual profiles would serve a similar function as “Q files” in the electricity industry and would support retailers who desire to read customer meters infrequently and at times other than at month end without impacting on accuracy of reconciliation.</p>

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<p><b>Q12</b> Is it appropriate, as part of the initial changes to allocation arrangements, to require all retailers to read every non-TOU ICP at least once in every twelve month cycle?</p>	<p>Yes.</p>
<p><b>Q13</b> Should the Gas Industry Co establish accuracy criteria for estimates (in conjunction with an appropriate compliance regime)?</p>	<p>Yes, although from a compliance perspective, we believe that if participants breached certain criteria repetitively and caused financial injury to others as a result, then in a contractual governance regime, parties should be able to resolve this through the Courts. There are also other solutions, such as 'use of money interest' that could be imposed when washups are performed.</p>
<p><b>Q14</b> Is it appropriate in the longer term (after the initial changes are made to the allocation arrangements) to introduce a requirement that submitted data contains a minimum percentage of historic read data?</p>	<p>Yes,  Such data should be reported to the allocation agent on a regular basis.</p>
<p><b>Q15</b> Is it appropriate in the longer term to introduce a standardised data transfer format?</p>	<p>Yes.</p> <p>We believe that this is a relatively straight forward process, especially as there is only one allocation agent currently, and should be introduced sooner rather than later.</p> <p>If the industry pursues such developments as global reconciliation, washups, seasonal residual profiles, and meter reading performance reports then standard formats will be important given the increased frequency and volume for data being transmitted.</p>
<p><b>Q16</b> Do you agree that the two main options that should be considered for making allocation and reconciliation arrangements mandatory and enforceable are a modification of the existing contractual arrangements, and Ministerial rules under the Gas Act?</p>	<p>Yes</p>

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<p><b>Q17</b> Do you agree that potential problems with pipeline owner leverage and Commerce Act risks associated with the contractual arrangements favour the Ministerial rules solution?</p>	<p>No.</p> <p>To date pipeline owner leverage has not played a significant part in the problems that are being experienced with the current arrangements.</p> <p>The Commerce Act risks are overstated and imply that current arrangements potentially breach the Commerce Act.</p> <p>Progressing to immediately to a regulatory arrangement will result in:</p> <ul style="list-style-type: none"> <li>- additional costs through governance overhead at the GIC and in retailers due compliance requirements</li> <li>- retention of inefficient rules due to a slow rule change process</li> </ul> <p>Nova gas has commented more fully regarding this topic in our submissions relating to central registry and switching proposals.</p>